Stevenson Kellogg Ernst & Whinney

Project Report

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Project Report

THE B.C. HOTEL INDUSTRY STUDY

Prepared for

The Province of British Columbia
and
British Columbia & Yukon Hotels' Association

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I

INTRODUCTION

A. BACKGROUND TO THE STUDY

The Province of British Columbia and the hotel industry have joined together to undertake an assessment of the current health of the hotel industry in British Columbia. The government is concerned that the hotel industry develop and meet the needs of increased tourism in British Columbia. The hotel industry is concerned about the ongoing viability of its industry and how it should adapt to the changing markets. This study represents the first comprehensive review of the industry since 1957.

The purpose of this study is to perform an objective independent assessment of the hotel industry to help guide the formulation of policy in the future and provide direction for the industry. This study is to be a balanced assessment of the industry not biased toward the industry perspective or the government perspective but providing the data and assessments to help create a better industry. This review should promote a new dialogue between government and industry benefiting all hotels in British Columbia.

This study was conducted with consideration for the government's new mandate of regional development. Financial results of the hotels were analyzed based upon each one of the eight regions outlined in the province's development plan.

The hotel industry has undergone significant changes over the last decade. The hotel industry grew and developed during the 1970s and reached a new plateau prior to the recession. Since the recession years of the early 1980s, many hotels across British Columbia have gone into receivership and many have stopped capital infusions into their properties. The net result of this has been a loss of economic viability and a loss in quality of the product offered to the consumer.

In addition to the troubled areas, there have been many positive changes. There has been an increase in resort opportunities such as Whistler in the province. There has been significant investment in facilities and marketing to attract meeting and convention business. The province has contributed to the development of the Vancouver Trade & Convention Centre, Whistler Conference Centre, Penticton Convention Centre, and Victoria Convention Centre. The increased international awareness of Vancouver through Expo has significantly increased tourism and commercial business for that city. In recent years there has been a major influx of offshore investment to purchase and acquire hotels in British Columbia.

This study is intended to be a joint planning exercise between government and industry to create a stronger hotel industry for the future. The hotel industry is an important component in developing stronger tourism industry in British Columbia. For British Columbia to be competitive in North American and global tourism, it will need to be organized with respect to marketing services and product development at a level above our competitors. This will require a level of cooperation between government and industry that has not existed in the past. This study represents a starting point for a major thrust of providing high-quality hotel facilities to support the growing demands of tourism and commercial activity in British Columbia.

B. SCOPE

For the purposes of this study, we selected 772 properties with 45,200 rooms as representative of the hotel industry in British Columbia. We did not include the 736 motels with 17,497 rooms as covered in the British Columbia Motel Industry Status Report of 1987. We also did not include hotels and accommodation units with under 15 rooms as the majority represent the bed and breakfast accommodation industry.

Mail questionnaires were sent to all 783 hotels on the British Columbia & Yukon Hotels' Association (B.C.Y.H.A.) listing of hotel properties. Due to the constraints of travel expense and time limitations, we did not travel to interview every hotel property in the province. We did, however, travel to all regions of the province and met with owners of 50 hotels to obtain their direct input.

Financial statements were obtained from 131 hotel properties across the province. These records are being kept in confidence and the aggregate results are shown in the attached report. In the majority of the cases, we relied upon unaudited financial data provided directly by the hotels. No effort has been made to authenticate or audit any of this financial data, but financial results were subjected to reasonableness checks.

We attempted to obtain past historical data over the last 10 years for the properties interviewed. We were unable to obtain quality historical financial information because of the tremendous turnover in hotel properties in the last five years. Over 75% of the hotels contacted had either changed ownership or been put into receivership within the last five years. The owners of these properties did not have historical financial data.

In conducting the product and market assessment, we did not conduct detailed independent market research on the status of the industry. We relied on existing market research information and the results of our interviews.

C. APPROACH

This study was conducted under the supervision of a steering committee composed of representatives from the government of British Columbia and representatives from the British Columbia & Yukon Hotels' Association. In addition, input was solicited from the Neighbourhood Pub Association, the Vancouver Hotel Association and various other interested parties. Documents reviewed for this study are detailed in the bibliography in Appendix E.

A summary of the work steps covered in this study are outlined below:

1. Profile of the industry

- ► The inventory of hotels was compiled from the Accommodation Directory and from the B.C.Y.H.A. Hotel Directory.
- ► Occupancy and rate data was obtained from Tourism B.C. reports prepared by Pannell Kerr Forster and from hotel questionnaires.
- ► Licence information was obtained from the annual reports of the Liquor Control and Licensing Branch.
- ► An historical profile on the hotel industry was obtained from Statistics Canada using the tax file database.
- ► Liquor purchase information was obtained from the Liquor Control and Licensing Branch.
- ► Market data was obtained from the results of the recent Canadian Travel Survey.
- ► Room tax information was obtained from the Statistics Department of the Province of British Columbia.

2. Facility assessment

Trends in the American hotel industry were obtained from discussions with major American chains and from information contained in our own files.

3. Market assessment

- ► Questionnaires were mailed out to 783 hotels contained in the directory of hotels maintained by the B.C.Y.H.A. Our firm received 140 responses of the 783 questionnaires sent. A copy of the questionnaire is enclosed in Appendix A.
- ► Interviews were conducted with owners of hotels representing 50 hotels in the province. Interviews were conducted in the following cities and towns:

Vancouver
Victoria
Cranbrook
Kimberley
Kelowna
Penticton
Williams Lake
Prince George
Smithers
Campbell River
Nanaimo
Fort St. John

- Information on the market was obtained by analysis of the questionnaire results and from information supplied through the direct interviews.

- The breakdown of the demand for hotels by geographic area and by type of consumer was obtained from the results of the questionnaire.

- An assessment of the competition to the British Columbia hotel industry was developed based on the results of the questionnaires, interviews and our firm's experience in the hospitality industry.

4. Financial assessment

- Current financial statements were requested and obtained for 131 hotel properties. These financial statements were broken down and analyzed by region and by type of hotel.

- Financial results obtained were compared to other areas of Canada and North America.

- The impact of the national sales tax on the hospitality industry was discussed with representatives of the government and with sales tax specialists in our own firm.

5. Government policy assessment

- Representatives of all government departments impacted by the hotel industry were interviewed including Liquor Control and Licensing, Treasury Branch, Tourism B.C. and the Ministry of Regional Development .

- An assessment was prepared for selected government programs and policies that have impacted the industry.

6. Future of the industry

- A profile was prepared to describe the nature of successful hotels in British Columbia.

- Directions on future government policies were compiled with information from interviews, questionnaires, and discussion with government officials.

- A summary of the economic impact of the hotel industry was prepared from our financial results.

7. Output

- Results of our data analysis were compiled into this report. In addition to the consultants' report, the steering committee will be issuing a brief representing their recommendations to the government.
- The results of this study were presented at a day-long workshop on April 17, 1989. This workshop provided a forum for government and industry representatives to discuss the study's findings and conclusions and what its implications are for the future.

We would like to thank all government representatives, the B.C.Y.H.A. and all participants in this study for the large effort required. This study represents a major step toward organizing a new and prosperous hotel industry for British Columbia.

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II

HIGHLIGHTS

A. INTRODUCTION

This study represents a joint undertaking on behalf of the government of British Columbia and the hotel industry to assess the current health of the hotel industry in the province. This is an important opportunity for a new level of cooperation between government and the industry to cope with the changing demands of the accommodation industry in British Columbia.

B. CURRENT AND HISTORIC PROFILE OF THE INDUSTRY

A sample of 772 full-service hotels, modern hotels, resorts and lodges were selected as being representative of the bulk of the British Columbia hotel industry. The total estimated number of accommodation units in the province is approximately 2,400. Hotels represent the majority of the revenues of the accommodation industry because of their higher rates, occupancies and size of facilities as compared to other types of accommodation.

The supply of hotel rooms in British Columbia has grown significantly in the period 1978-88. The room supply in the Accommodation Directory increased from 24,100 rooms to 33,100 rooms over this period. This increase of 10,000 rooms represents approximately a 37% increase. Over the last several years, the current growth in hotel rooms has been centered around Vancouver and Whistler as a result of an increase in destination tourism, convention facilities and commercial demand responding to economic growth. Southwestern British Columbia, including Vancouver Island, contains the majority (or 67%) of British Columbia's hotel rooms. Greater Vancouver's 37% share of rooms dominates the province's market.

Since the 1970s, there has been a shift away from smaller hotels. A gradual rationalization in the industry is occurring as less profitable and less efficient hotels begin to exit from the marketplace.

British Columbia occupancies have recovered from the recession years. British Columbia is again realizing higher occupancies with an 1988 average estimated occupancy at 60% . Occupancies vary significantly by size and location of property. Occupancies for the 15-75-room category averaged 47% compared to the greater than 250-room at 71%.

Average daily room rates are now on the increase after the slow down during the recession years. There were few rate increases in the early 1980s, but now average rates are increasing at a rate higher than inflation. A higher rate of increase is necessary to help the industry's viability. The average rate for the 15-75-room category was $34 compared to the $100 rate achieved by the greater than 250-room properties.

C. MARKET AND COMPETITIVE ENVIRONMENT

The North American hotel industry is going through extensive change. Emphasis on the customer and product rationalization are at the forefront of these changes. Similar market focuses are now coming to bear on the British Columbia hotel industry. The industry is becoming more market driven and it is changing from a beverage to a rooms emphasis.

The British Columbia market is broader now. The key demand sectors are now:

Business/commercial	40%
Convention/meeting	13%
Tourism	37%
Tour	10%
	100%

British Columbia residents represent 50% of the total demand for hotel rooms. More importantly, they represent the majority of the off-season demand when occupancies are low and average rates decline. Great disparity exists between regions of the province. The greatest challenge for the British Columbia hotel industry is to increase off-season demand to help reduce seasonal variations in occupancy. Creative marketing programs aimed at British Columbia residents should assist in addressing seasonal variations.

Hotel development in British Columbia in recent years has been focused on resort properties, downtown chain hotels, and budget or economy chain hotels. These trends are expected to continue with the addition of all-suite specialty products in urban areas.

D. FINANCIAL HEALTH OF THE INDUSTRY

Occupancies, average rates and income results are improving for most hotels. 1988 produced one of the best years in the industry's history. There is, however, great disparity in the financial results of hotels, with many of the smaller hotels not being able to effectively tap into the new tourism and convention/meeting business. Many hotels are still dependent on beverage service for a majority of their income and this market is both shrinking and under severe competition from other outlets.

Despite the improvement in income results, the industry has great difficulty in generating adequate revenues to cover replacement and financing requirements.

To further assist the analysis of the industry, hotels were categorized into five sub-groups. Resorts, large downtown hotels and beverage properties show the best financial performance. Exhibit II-1 compares the income before interest, land lease, depreciation and income taxes for the five property classifications.

EXHIBIT II-1
Income before interest, land lease, depreciation and income taxes by type of property as a percent of total revenue

A Resorts	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage
21.2%	20.5%	16.6%	11.1%	22.6%

An analysis of the five size/type categories' average income results found that no category generates sufficient income to produce an acceptable return on current replacement investment. Consequently, hotel investors must either acquire their investment at lower than normal value, such as through receivership, or rely on real estate appreciation to produce an adequate return. These financial deficiencies have particularly hurt smaller hotels. As a result, the hotel inventory has not been properly renovated in recent years.

Hotels' marginal results have made it difficult to obtain sources of capital. Bankers are reluctant to lend to hotels especially in the outer areas of the province and the lack of financing has slowed down plans for renovations and improvement.

E. IMPACT OF GOVERNMENT POLICIES

Government policies, initiatives and regulations have greatly influenced hotel development and operations.

1. Liquor

The hotel industry in British Columbia is beverage-oriented because of the historical relationship between hotels, public drinking and government liquor policies. Large numbers of smaller hotels in British Columbia were built to meet the requirements for liquor licensing in hotel pubs. This has created a situation where a large portion of smaller hotels in the province are dependent upon income from beverage alcohol.

The market demand for licensed hotel seats has been steadily decreasing since the 1980s. Demographic changes, drinking and driving laws, lifestyle considerations and the price of alcohol have all contributed to a decrease in market share of the licensed hotels. The proliferation of licences for neighbourhood pubs and restaurants has further compounded the decrease in market demand. In the future, this trend is expected to continue and further erosion of the demand for licensed hotel seats will probably occur.

Licensee Retail Stores (LRS) have become a significant factor in the distribution of packaged sales across British Columbia. LRS's now sell 25% of all packaged beer in British Columbia. These LRS operations for hotels are very profitable. The average income contribution of the LRS operations in hotels we studied averaged $200,000. The hotels would like greater access to LRS licences as less than 10% of the hotels at present have these facilities.

The 10% tax on alcohol has impacted beverage-oriented hotels in price-sensitive areas of the province. The 10% draught tax addition and the increase to 10% on other alcohol on April 1, 1988 generated a net increase of $89 million in tax revenue for the government. This tax is applied not only on the purchase cost of alcohol but also on the mark-up percentage applied by the hotels. Hotels would like to see a fairer form of taxation where the cost of alcohol is taxed on the equal basis between licensed outlets and liquor distribution outlets.

2. Other

Other government initiatives have helped develop the hotel industry. The new Victoria Conference Centre, the Vancouver Trade & Convention Centre, Expo and B.C. Place Stadium are only a few examples of where government support has generated demand for hotels. These activities, however, have only taken place in the "golden circle" and the areas outside have not yet benefitted in an extensive way.

Government taxation of the industry is significant. The government taxes the industry through property tax, business and similar licence fees, payroll, liquor, room and income taxes. Because of the industry's marginal financial results, income taxes are not that significant. Total taxes, however, average close to 12% of gross revenue.

The basic hotel tax is 8% or two percent above the standard provincial sales tax. There is no logical difference between the basic hotel tax and the 6% sales tax in British Columbia. The government should consider a reduction in the 8% basic hotel room tax to 6% to provide a fair basis of taxation and to help the industry's competitiveness.

Consideration should be given to encouraging the 2% room tax for local tourism marketing across all regions of the province. The additional tax should be distributed back to the major destination centres or to some form of regional tourism association, that is appropriate for the given area. The current 2% tax in place in Victoria, Vancouver and Whistler should be retained as implemented. In the outlying areas a municipal tax may be too small, and consequently, it may be more advantageous to fund a regional industry marketing association.

The national sales tax is of major concern to the hotel industry. Because hotels may have few inputs as tax credits to offset the final product tax, hotels will experience significant increases in the cost of services. Foreign visitors from the United States and other destinations will see a steady increase in the cost of tourism in British Columbia and more importantly British Columbia residents will see American and foreign destinations as far more attractive. Full study of these potential taxes should be undertaken as soon as draft legislation is available.

F. ECONOMIC IMPACT OF THE INDUSTRY

The hotel industry has a large economic impact on the economy of British Columbia. Total revenues for the hotel industry have been estimated at $1.644 billion dollars for 1988. The total wages are estimated at $493 million for the total employment of 28,000 persons. The indirect and induced income effects are estimated at $2.76 billion based upon economic multipliers.

G. THE FUTURE HOTEL INDUSTRY IN BRITISH COLUMBIA

The industry is becoming more market driven. Hotels of the future will be more efficient and be targeted to specific markets. The increase in the number of all-suite hotels, resorts and urban hotels can be expected. The industry operators and employees will be better trained and more committed to the industry. Industry self-esteem will be higher and the public and government's recognition of its importance will be greater.

H. RECOMMENDATIONS AND CONCLUSIONS

Chapter VIII discusses a number of specific recommendations to be considered. They include several financially related actions to help the industry. In general these recommendations are based on the following conditions:

- Although the industry is growing and market and financial results are improving, the industry income results are marginal for even the more successful hotels. Income results are not adequate to produce a satisfactory return on replacement values.

- The industry is becoming more market focused, but many of the new market opportunities have not benefitted or materialized in the areas outside of Vancouver and Whistler. At the same time, the marketplace is becoming very competitive, and all areas need to increase their marketing efforts.

- Government has and will have a key role to play in assisting the industry. Government's role, however, is becoming more supportive and less participatory. Policies and regulations will decrease in importance, while marketing, training and demand generation assistance should increase.

- Government and industry communication should become more positive and responsive. Frequent dialogue on liquor policies and regulations, marketing direction, travel generator creation and taxation issues are required.

The future of the hotel industry in British Columbia looks promising but faces major challenges. Strong cooperation will be needed between industry and government to ensure the industry is competitive in the growing international tourism and business markets. A major emphasis needs to be placed on improving the health of the hotels in the outer areas of the province.

III

CURRENT AND HISTORIC PROFILE OF THE INDUSTRY

A. INTRODUCTION

A sample of 772 full-service hotels, motor hotels, resorts and lodges were selected as being representative of the bulk of the British Columbia hotel industry (see Appendix B for definitions). These hotels were selected from the 1989 B.C. Accommodation Directory and the Hotel Directory produced by the British Columbia & Yukon Hotels' Association. Hotels less than 15 rooms were not included. In addition, all of the province's non-conforming hotels were reviewed. Of the total sample size of 772 properties, 265 were non-conforming hotels, that is, they do not meet the current criteria for liquor licensing.

Within the 265 non-conforming hotels, there are 165 hotels that either do not have rooms or do not sell transient room accommodation. All of these hotels are primarily in the business of beverage sales. These hotels are categorized in our analysis as "E" hotels.

To aid in our analysis of the overall industry, we segmented our representative sample in two ways.

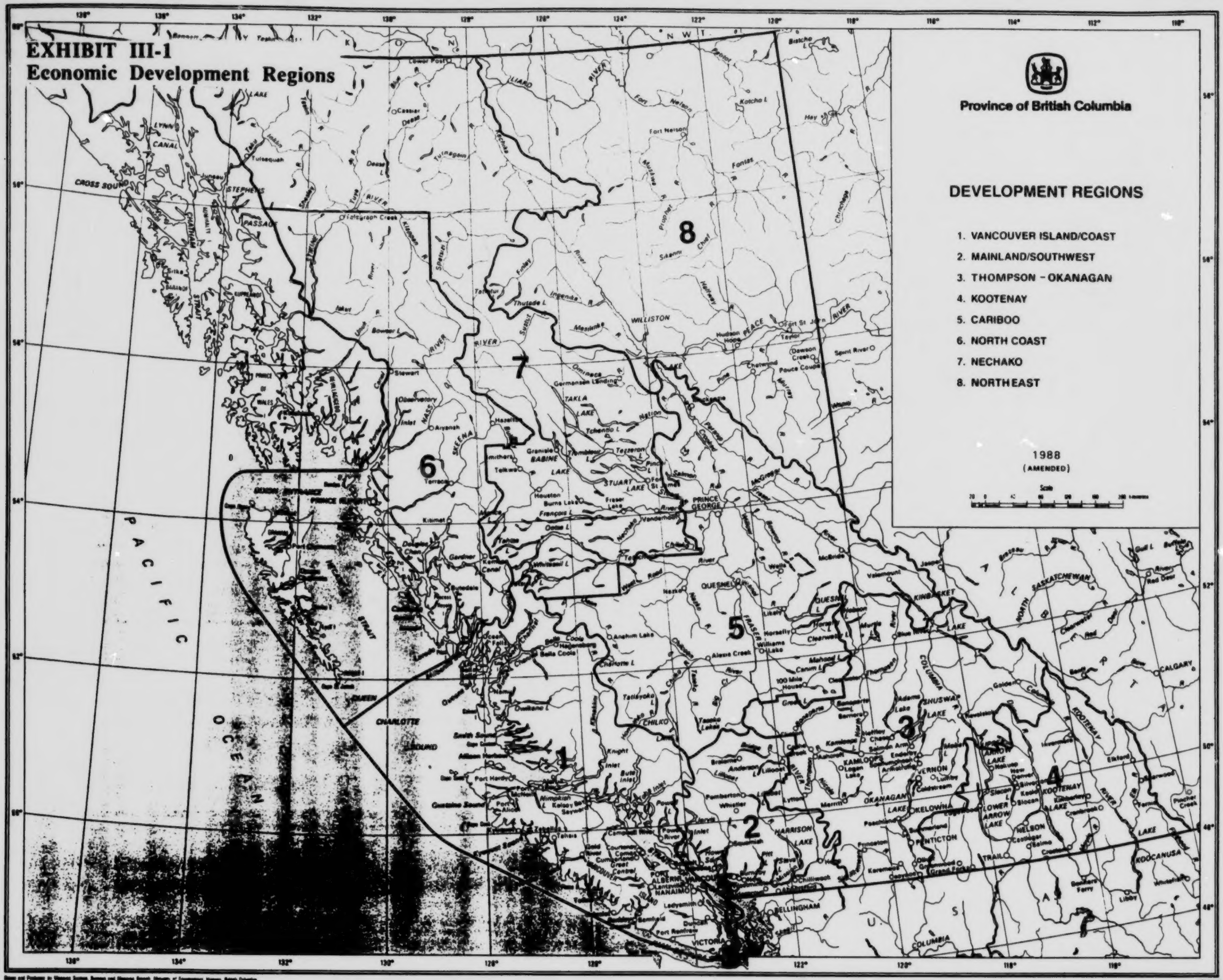
- By geographic location.
- By size and definition.

1. Geographic location

British Columbia has recently been segmented by the Ministry of Regional Development into eight development regions. These regions are illustrated in Exhibit III-1. Our sample is broken down based on each hotel's location in these regions. (Note: the Ministry of Tourism has maintained a similar geographic regional breakdown of the province for the purpose of tourism development. The two ministries' regions are not directly comparable.)

The eight economic development regions provide various types of accommodation. A listing of the number of properties is listed below (note: the list excludes "E" hotels).

EXHIBIT III-1
Economic Development Regions



Province of British Columbia
DEVELOPMENT REGIONS
1. VANCOUVER ISLAND/COAST
2. MAINLAND/SOUTHWEST
3. THOMPSON - OKANAGAN
4. KOOTENAY
5. CARIBOO
6. NORTH COAST
7. NECHAKO
8. NORTHEAST
1988
(AMENDED)
Scale
PACIFIC
OCEAN
PRINCE GEORGE
KAMLOOPS
KELOWNA
VERNON
PENTICTON
NANAIMO
VICTORIA
BELLINGHAM
CALGARY
N W T
WILLISTON
PEACE
FRASER
COLUMBIA
KOOTENAY
KOOCANUSA
CHARLOTTE
STRAIT
1
2
3
4
5
6
7
8

2. Size and definition

In addition to the regional breakdown, we evaluated performance of hotels in differing categories based on property size and definition. For the purposes of this analysis, the 772 selected hotels were broken into the four categories shown in Exhibit III-2, Resort (A), Greater than 250 rooms (B), 76-250 rooms (C), 15-75 rooms (D). These hotels make up 607 of the properties in our sample in addition to the 165 non-conforming, non-transient hotels (E).

EXHIBIT III-2
Hotel supply by group and region, 1988

	# of Properties
By group:	
Resort (A)	74
250+ rooms (B)	12
76-250 rooms (C)	139
15-75 rooms (D)	382
PROVINCIAL TOTAL	607
By region:	
Greater Victoria (1A)	54
Vancouver Island (1B)	93
Greater Vancouver (2A)	123
Whistler (2B)	23
Southwest British Columbia (2C)	37
Thompson/Okanagan (3)	112
Kootenay (4)	50
Cariboo (5)	48
North Coast (6)	26
Nechako (7)	16
Northeast (8)	25
PROVINCIAL TOTAL	607

Throughout this report, we have analyzed the British Columbia hotel industry utilizing the above groupings. If otherwise unmentioned when referring to hotel groupings, the letters A, B, C, D and E represent the hotels by the size and definition classification (i.e., C = hotels of 76-250 rooms) and the numbers 1 through 8 or sub-referenced 1A, 1B, etc., represent specific regions or hotel locations such as 1B - Vancouver Island Hotels or 6 - North Coast Hotels.

The remainder of this section presents a discussion of the history of the British Columbia hotel industry, an analysis of changes in supply and demand over time, and occupancies and rates in the province.

B. HISTORICAL BACKGROUND

1. The industry grew along transportation lines

The British Columbia hotel industry grew as a result of two main historical thrusts -- transportation and social needs. Many of the present-day older hotels can be traced directly to the development of the railway or waterways in British Columbia. The Empress in Victoria, the Hotel Vancouver and numerous smaller hotels along the routes of the original C.P. railway are all examples of these. At the turn of the century, these hotels served travellers and businessmen, and acted as the centrepiece of community activities of the cities or towns where they were located.

Smaller rural and small-town hotels were also constructed usually serving multiple roles in the communities as a gathering centre, accommodation and food service provider, and drinking establishment.

The early 1900s saw the introduction of a number of destination resorts in addition to the community-located hotels. Examples of these would be Harrison Hot Springs, Painters Lodge in Campbell River and the Island Hall in Parksville. These properties served the growing communities in the Southwest Mainland and some international travellers. With the end of prohibition in 1921, drinking restrictions were eased, but drinking was strictly controlled by licensing only a limited number and type of establishments. The first fully public licensed drinking place was a Vancouver hotel, built and licensed in 1926. Most hotels constructed after 1926 had liquor licences but there were no established guidelines as to what services a hotel was required to provide in order to gain a licence.

2. Liquor licensing spurred hotel development

The Depression through the second world war saw little or no change in the hotel industry in British Columbia. But, shortly after the war and in conjunction with the more widespread use of the automobile, more improved accommodation was required to satisfy new demand. In 1953 the government of W.A.C. Bennett established an act to provide municipalities with a tool to vote on liquor licences and types in their communities. Inherent in this act was the protection of liquor licensing for hotels and upgraded standards and requirements for new hotels expecting to be given licences. This act resulted in policies for hotels such that:

- New hotels constructed be as good or better than the last property constructed in their region (i.e., if the last property built was 43 rooms, the next should be no less).

- Support facilities including restaurants and banquet space be constructed in addition to licensed beer parlours. This involved the 50/50 rule that at least 50% of seats in the facility must be food-oriented.

- New hotels outside Vancouver and Victoria be at least 50 rooms and 100 rooms inside the cities.

The granting of liquor licences in conjunction with the construction of hotel rooms promoted greater year-round revenues to hotels making these properties more economically viable. Numerous new hotels were constructed during this era to capitalize on these regulations. Thus, the province was able to increase its base of lodging accommodations in outlining areas to enhance local economies and provide adequate services to travelling business people while still providing operations with reasonable returns.

These policies provided for a base of hotel rooms to be constructed in British Columbia throughout the 1950s and 1960s .

The motel industry was also evolving at this time with the bulk of the construction of motel rooms occurring in the late 1950s and 1960s. By the early 1960s and consistent with the explosion in rubber tire travel, 45% of all tourists travelling in British Columbia used motel accommodation while only 7% used hotels.

3. Hotels grew larger in the 1960s and 1970s and were focused on the urban centres

Throughout the 1960s and into the 1970s, much of the new hotel development included large allocations of space for public houses and lounges in addition to rooms. However, the size of the accommodation facilities increased as more developers began to see greater profits resulting from room revenues. Local and regional economies also played a part in the development of many hotels throughout the province during this era. The expansion of the lumber and mining industries in the 1950s and 1960s saw the development of many hotels in nearby communities to serve these industries. This was especially true in small rural communities heavily influenced by the town's one or two main industries.

By the 1970s, much of rural British Columbia's hotel growth had been completed and new development and growth was confined to British Columbia's two largest urban centres of Victoria and Vancouver, with some specific resort destination development in outlying regions. Indeed, by the late 1970s, over 50% of the hotel supply in the province was located in Victoria and Vancouver.

Today, new development is still occurring in the two major urban centres and in some of the province's resort areas (in particular, Whistler). However, much of the rest of the province's hotel inventory is older and under-utilized.

Today, the industry is made up of a complex mix of hotels serving a multitude of market needs.

4. The recession hurt hotel revenues

The recession that occurred in the 1980s dramatically slowed hotel revenue growth. In Exhibit III-3 revenues from a sample of 180 hotels is shown. Results fell to a low in 1983 and have improved steadily.

EXHIBIT III-3
Revenue growth 1980 - 1986 (000's)

Year	Total Revenues	% Change
1981	470,000	
		0.8 %
1982	474,000	
		(2.5)%
1983	462,000	
		24.0 %
1984	573,000	
		3.6 %
1985	594,000	
		14.5 %
1986	680,000	

Sample: 180 Hotels in British Columbia
Source: Statistics Canada

C. SUPPLY OF HOTEL ROOMS

To review the change in hotel room supply since the 1970s, we reviewed data collected by Tourism B.C. and the B.C.Y.H.A. since 1966. While none of the sources of accommodations data are directly comparable to our current supply defined by the 607 properties in our sample (excluding non-conforming, non-transient hotels), they are reflective of activity in the marketplace and represent close to 80% of current room supply.

Exhibits III-4 and III-5 trace those hotels in our current supply also listed in the B.C. Tourism Accommodation guide book from 1974-88.

EXHIBIT III-4
Sample of hotel growth in British Columbia, 1974-88

	1974	1978	1984	1988
Number of properties	350	363	431	423
Number of rooms	20,340	24,124	31,527	34,015
Average number of rooms per property	58	66	73	80

Source: Tourism Accommodation Guide, 1974, 1978, 1984 and 1988 (excludes non-conforming, non-transient hotels).

1. Three eras of building since 1970

a) 1970s

There were three major building booms in the hotel industry since 1970. The first, in the early 1970s, was dominated by the construction of a number of major hotels in downtown Vancouver including the Four Seasons Hotel, the Hyatt and the Sheraton Landmark. This resulted in a modest increase in the number of properties but increased the number of rooms supplied by close to 4,000. In addition to the building in Vancouver, there was also a moderate amount of additional building throughout the province (see Exhibit III-6).

b) Early 1980s

The most significant building era in recent times came between 1978 and 1984. This boom came in conjunction with the economic boom of the late 1970s and carried on into the recession period of the early 1980s. This building boom differed from the early 1970s building in that it covered most of the province and all sizes and types of hotels. Vancouver Island saw construction of properties from the 200-room Laurel Point Inn in Victoria to the 79-room Airport Inn in Port Hardy and many in between. Fort St. John saw an increase of eight new hotels and 750 rooms. New and expanded resort properties appeared in the Okanagan and Kootenays. Every area of the province, with the exception of the Nechako, saw an increase in the number of rooms, hotels and average size of hotels. Vancouver development was noticeably quite slow relative to the rest of the province over the same period.

Vancouver's share of hotel rooms actually dropped from a high of around 40% of all rooms in the province in 1978 to the mid- to low 30% range in 1984.

EXHIBIT III-5

CHANGES IN ROOM SUPPLY 1974-1988

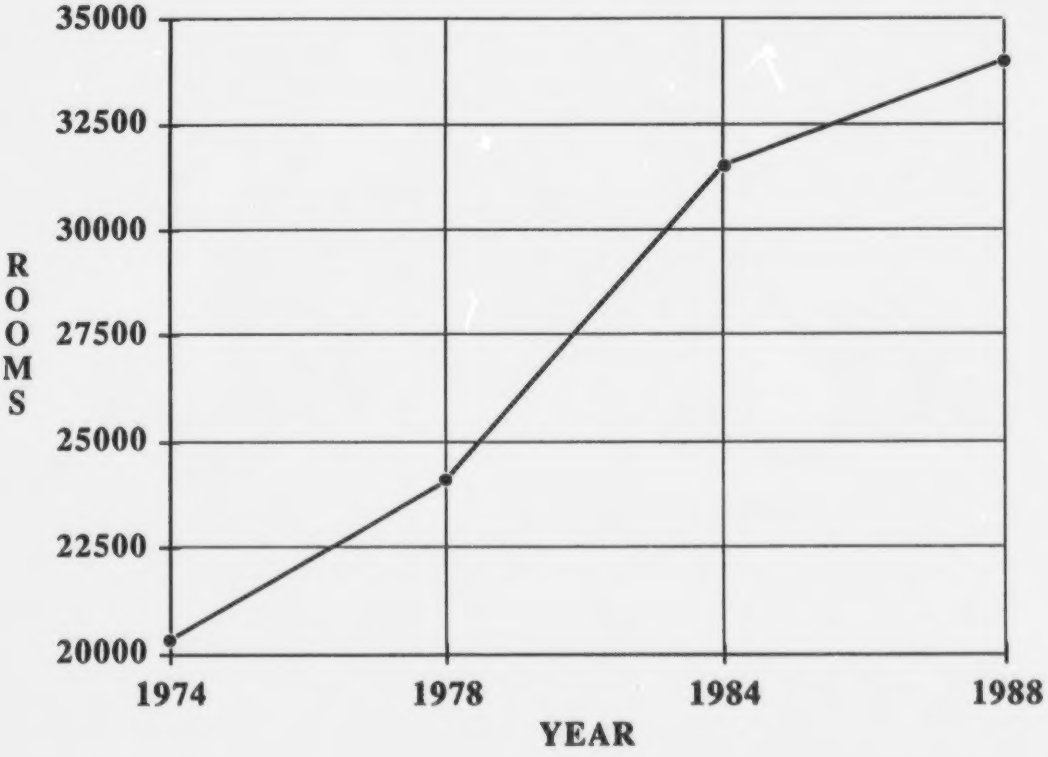
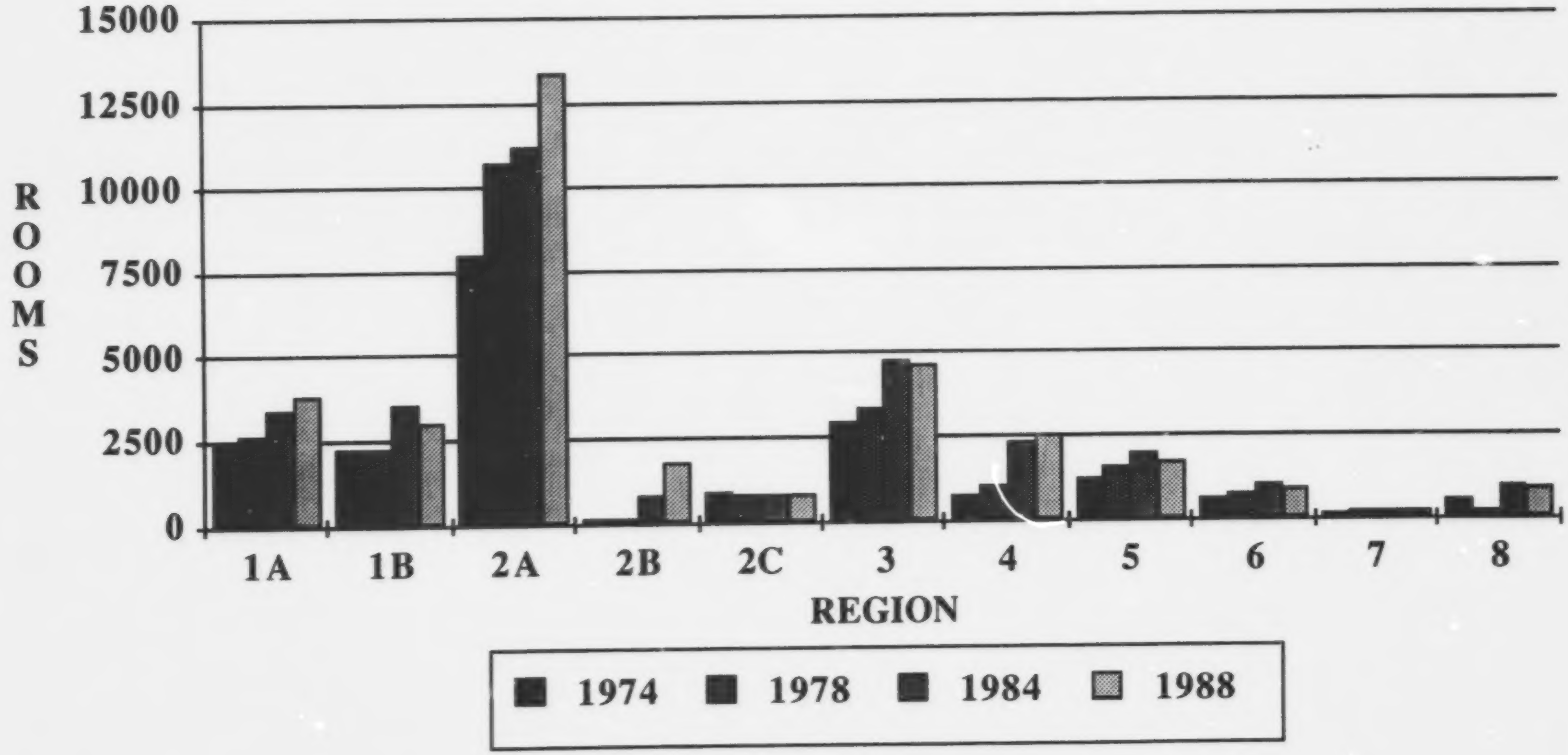


EXHIBIT III-6

CHANGES IN ROOM SUPPLY BY REGION 1974-1988



c) Expo

In response to the recession of the early 1980s, the province-wide growth spurt ceased between 1984 and 1988. During this four-year period, a decline in total number of properties provincially was seen while the total number of rooms and average size of properties increased. In all areas of the province, except Victoria, Vancouver and Whistler, the number of hotels either decreased or remained the same.

During this period, Vancouver's share of British Columbia hotel rooms moved up from its low in 1984 to its current 37% share. This was a result of the pre-Expo hotel boom in the city that included the:

- 506-room Pan Pacific Hotel.
- 202-room Pagebrook Hotel (now Westbrook Hotel).
- 90-room Coast Airport Inn.
- 180-room Coast Georgian Court.
- 190-room Mandarin Hotel (now Delta Place).
- 385-room Meridien Hotel.
- 58-room Lonsdale Quay.

The 1980s also saw a similar building boom in Whistler with the start of the Whistler Village in 1979. In recent years construction at Whistler has included the Delta Mountain Inn expansion, the Fairways Hotel, C.P.'s Chateau Whistler and numerous condo-hotels and other rental pool-type units.

2. Expansion by groups

Using the same tourism accommodation supply information for our regional analysis, we followed the growth of hotels by size categories (see Exhibit III-7).

It can be seen that during the 1974-78 expansion most construction occurred in the B and C categories or for hotels over 75 rooms. During the 1978-84 boom, a province-wide expansion occurred and this resulted in the dramatic increase in C and D properties (under 250 rooms). The 1984-88 period saw a decrease in rooms in the under 75-room or D categories as smaller, older properties fell victim to the recession while modest expansion was seen in both the 76-250 and over 250-room categories.

Today, southwestern British Columbia, including Vancouver Island, still contains the majority (67%) of British Columbia's hotel rooms. Greater Vancouver's 37% share of rooms dominates the province's market. The Thompson/Okanagan region (3) is the only other region with greater than 10% of the province's room supply at 14% (see Exhibit III-8 for each economic zone's share of hotel rooms).

3. Conclusion

Since the 1970s, British Columbia has seen a shift from many hotels with fewer rooms to fewer hotels with more rooms. A gradual rationalization of the industry is

EXHIBIT III-7

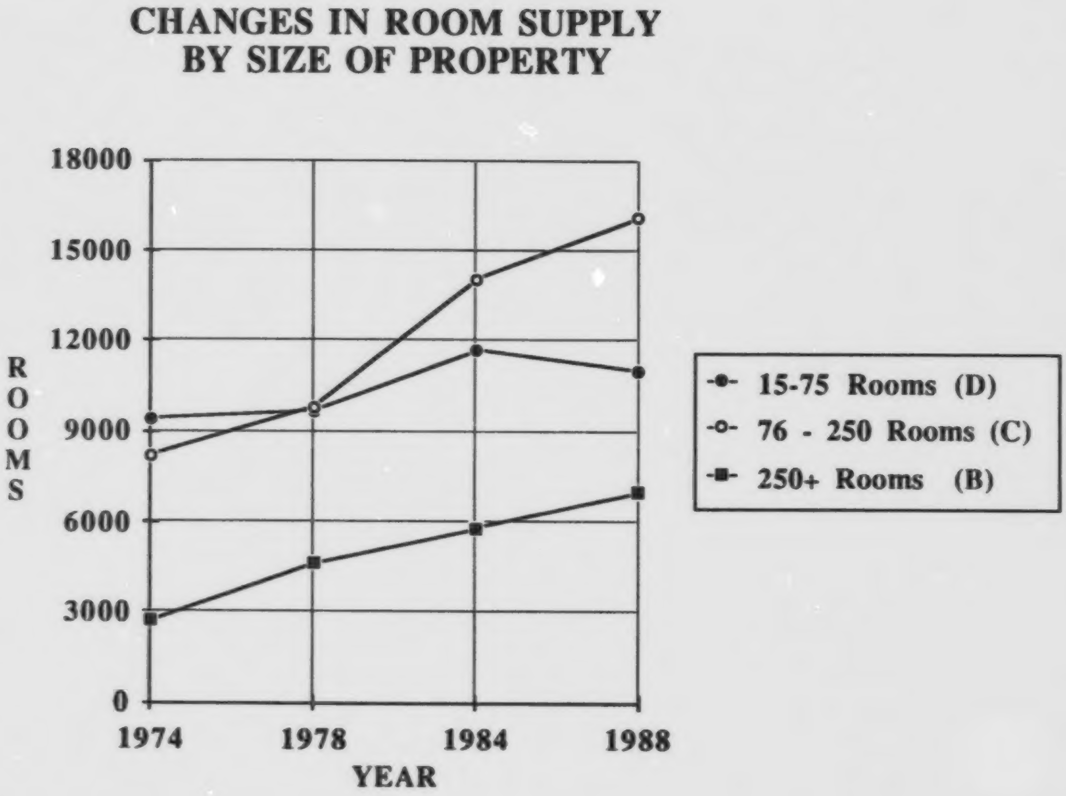


EXHIBIT III-8
Hotel share of supply by group and region, 1988

	# of Rooms	% of Rooms Available	Average # Rooms
By group:			
Resort (A)	4,708	11%	64
250+ rooms (B)	5,064	12	422
76-250 rooms (C)	17,356	41	125
15-75 rooms (D)	14,794	35	39
PROVINCIAL TOTAL	41,922	100%	69
By region:			
Greater Victoria (1A)	4,430	11%	82
Vancouver Island (1B)	4,214	10	45
Greater Vancouver (2A)	15,503	37	126
Whistler (2B)	1,788	5	78
Southwest British Columbia (2C)	1,507	4	41
Thompson/Okanagan (3)	5,989	14	53
Kootenay (4)	2,571	6	51
Cariboo (5)	2,599	6	51
North Coast (6)	1,334	3	51
Nechako (7)	553	1	35
Northeast (8)	1,434	3	57
PROVINCIAL TOTAL	41,922	100%	69

Note: The totals do not include the "E" properties.

occurring as less profitable and less efficient hotels begin to exit from the marketplace. This kind of economic shift is particularly slow in the hotel industry since changing the use of the hotel or eliminating it from the marketplace is very difficult.

Overall, we have seen:

- Strong regional growth in southwest British Columbia, particularly in Victoria, Vancouver, Whistler and, to a lesser extent, the Thompson/Okanagan region. These shifts have come about primarily because of the concentration of business demand in the urban areas and because of the success of a number of British Columbia resort destination areas.

- Steady growth in properties over 75 rooms and a decline in those under 75 rooms. Because smaller properties were hit hardest during the recession (see next section on demand) and they are easier to remove from the market, we are seeing a gradual reduction in these properties. Their age and inherent inefficiencies as lodging properties is also a factor in this decline.

  Larger properties evolved for various reasons including their greater efficiency, market power, ability to gain chain affiliations, and their potential as good real estate investments.

D. DEMAND FOR HOTEL ROOMS

To determine the changes in demand for hotel rooms in the province since the early 1970s, we reviewed historical data on provincial occupancy and rates supplied by the Department of Tourism. This data was organized by tourism region rather than economic zone and by slightly different size groupings of properties. However, the data does provide an overview of activities in the industry over the period that leads to the current climate in the hotel industry today.

The following sections outline the demand for hotel rooms in terms of occupancies and achievable rates, by region and groupings for various years. In addition, we compare British Columbia's overall performance in recent years to that of Canada's.

1. British Columbia's occupancies and rates, 1972-88

British Columbia has seen three periods of high occupancies since the early 1970s. Just prior to the oil crisis in the early 1970s, occupancies reached the low 70s. Towards the end of the 1970s, British Columbia occupancies were at their highest level over the period at 76%. After recovering from the decade's lowest occupancies, around 55% in 1983, British Columbia is again realizing higher occupancies with 1988's reported provincial occupancy at 66.4% (see Exhibit III-9 for a comparison of recent year occupancies and rates provincially).

Average daily room rates during this same period showed a steady increase almost every year. Only in 1983 at the bottom of the recession, and just after Expo did provincial average rates fall compared to their previous year. The average annual rate of increase over the time period was 9% -- well above the average rate of inflation for the same period. Rates peaked during the Expo year largely because of the strong rate performance in downtown Vancouver. However, occupancies during 1986 showed only a slight increase as travellers tended to adjust their visits to British Columbia to coincide with the fair.

a) Occupancy by property size

Exhibit III-10 shows the provincial occupancy by group, from 0-75 rooms, 76-250 rooms and 250+ rooms. The trend line for all groups is parallel to the British Columbia average, however, some differences are apparent. In the early 1970s, mid-sized properties performed better than their larger counterparts. But, by 1976, during the mid-1970s recession, the province's larger properties began to outperform the others and the gap between the smaller properties' performance and the mid-sized and larger properties began to increase. Mid-sized and larger properties' performance were closely aligned from 1976-82, but during the 1982-84 recession the larger properties began to gain competitive advantage over the mid-sized properties.

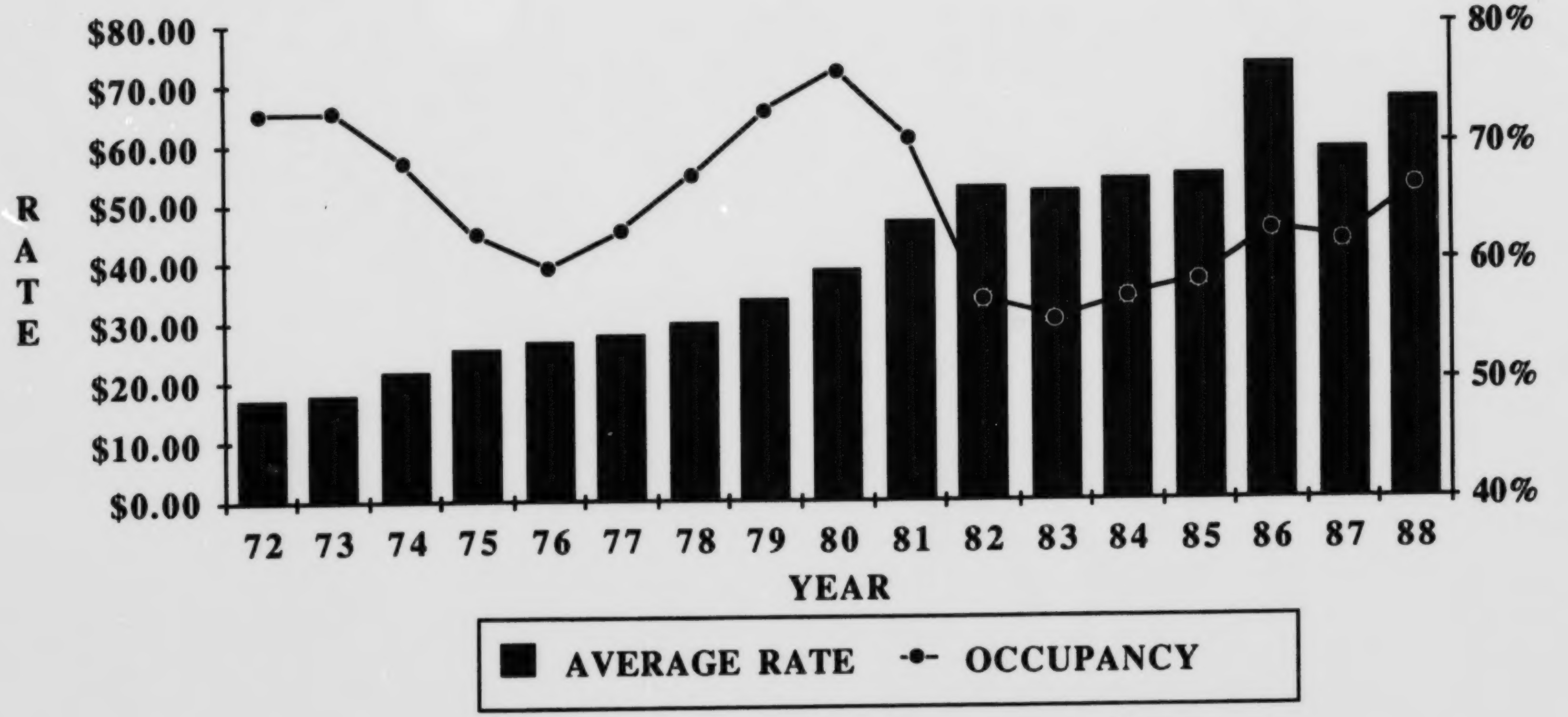
It would appear that during periods of poor economic performance, larger properties are better able to maintain competitive market share and smaller properties suffer more than the average. Currently, as occupancies increase, the gap between all properties' occupancies is narrowing.

b) Rate by property size

Exhibit III-11 shows provincial rates from 1972-88 by property size. Rate reductions occur rarely over this period even during poorer economic times. Throughout the period, larger hotels achieved average rates higher than mid-sized and mid-sized higher than small hotels. It is interesting to note that apparent inflation-driven increases benefit the larger properties more than the smaller properties over time. Thus, the rate gap between the larger and smaller properties is constantly widening. A comparison of current and 1972 rates reinforces this trend (Exhibit III-12):

EXHIBIT III-9

PROVINCIAL OCCUPANCY AND RATE
1972-1988



SOURCE : PKF

EXHIBIT III-10

OCCUPANCY BY GROUP
1972-1988

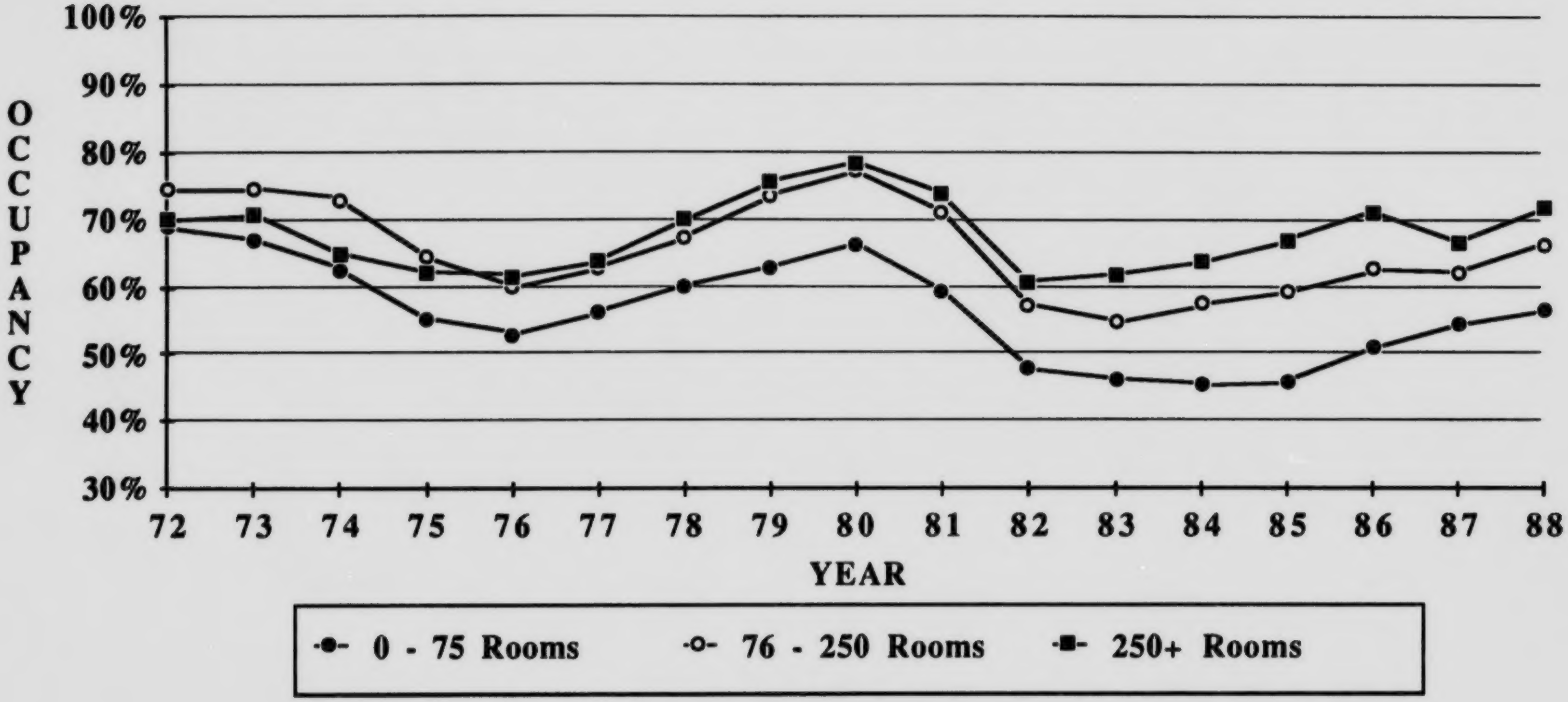


EXHIBIT III-11

RATE BY GROUP
1972-1988

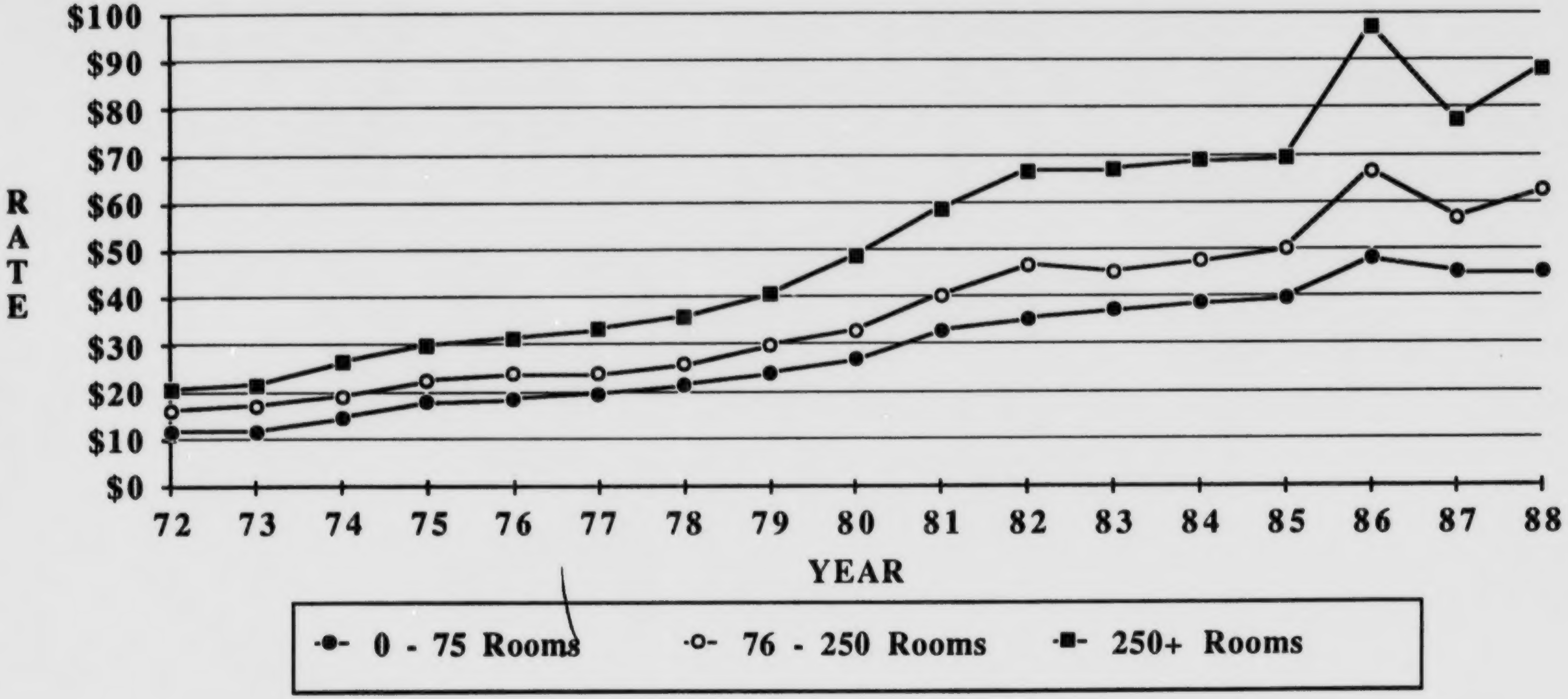


EXHIBIT III-12
Provincial rate comparison by property size

	1972	1988	% Change
250+	$20.90	$87.20	317%
76-250	16.20	61.80	281
0-75	12.00	44.70	272

Source: Pannell Kerr Forster

c) In recent years, British Columbia does not compare well to the Canada average

Since 1980, British Columbia's occupancies and rates have lagged well behind that of the Canadian average. Only in 1980 did British Columbia's occupancies actually exceed that of the Canadian average. Rates have always lagged behind that of the Canadian average except during Expo when British Columbia's average rate matched that of Canada's. Both the gap in occupancies and rates appears to have narrowed slightly in 1987 (see Exhibit III-13).

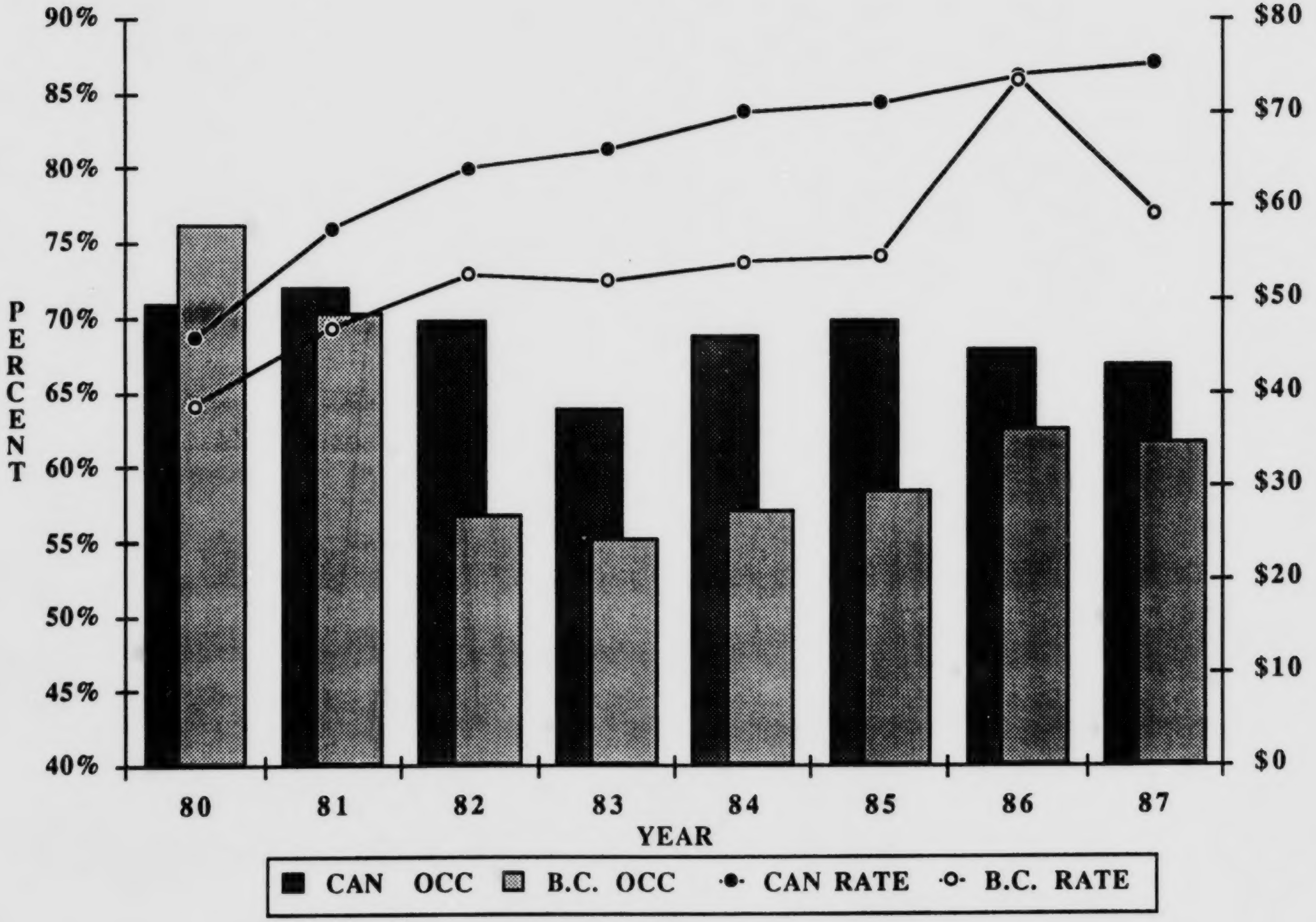
2. Occupancies and rates are better in resorts, large hotels and in urban centres

Exhibits III-14 compares occupancy and rate by region and grouping of hotels in 1988 based on our survey results. Our occupancy and rate results differ from Pannell Kerr Forster's 1988 reported results because our sample likely includes more lower end B.C. hotels (Ds) and regional boundaries used are not the same. The occupancy and rate results shown here are also slightly different than those shown in our financial section due to the large number of survey responses which provided occupancy and rate statistics but not financial statements. Regionally, particularly strong performance (compared to the rest of the province) has been achieved by the major urban centres of Vancouver (2A) and Whistler (2B). Victoria (1A) and Cariboo (5) achieved reasonable performance while the Vancouver Island (1B) and the North Coast performed adequately in both occupancy and rates. The Thompson/Okanagan (3) and Kootenays (4) achieved lower occupancies, but much higher rates, regions 7 and 8, the Nechako and Northeast, both performed very poorly.

By size and definition groupings, one can see that resort properties and larger properties outperform the other properties in both rate and occupancy categories. Mid-sized properties perform adequately and smaller properties perform well below average.

EXHIBIT III-13

B.C. AND CANADIAN
OCCUPANCY AND RATE COMPARISONS
1980 - 1987



SOURCE: PKF and Laventhol and Horwath

EXHIBIT III-14
Occupancy and rates by group and region

	Occupancy 1988	Average Rate
By group:		
Resort (A)	59%	$ 80
250+ rooms (B)	71	100
76-250 rooms (C)	66	60
15-75 rooms (D)	47	34
PROVINCIAL TOTAL	60%	$61
By region:		
Greater Victoria (1A)	62%	$62
Vancouver Island (1B)	57	43
Greater Vancouver (2A)	70	71
Whistler (2B)	66	87
Southwest British Columbia (2C)	N/A	N/A
Thompson/Okanagan (3)	49	56
Kootenay (4)	52	53
Cariboo (5)	62	44
Northcoast (6)	59	41
Nechako (7)	44	30
Northeast (8)	48	37
PROVINCIAL TOTAL	60%	$61

3. Conclusion

This brief review of recent performance and demand for hotel rooms provides a number of insights into the industry:

a) Occupancy

- Occupancies province-wide appear to be heavily influenced by the Canadian and world economic climate. Supply of rooms also plays a role in this equation.

- The demand for rooms at larger hotel properties is greater than the demand for smaller properties especially during periods of reduced demand. This likely reflects the higher quality locations and service provided by larger chain hotels, their larger marketing budgets compared to small independent hotels and their ability to cater to more market segments.

- Small hotels are more vulnerable to recessionary slow downs. But the performance gap between smaller and larger properties narrows during better economic times.

b) Rate

- Rate and rate increases over time have been only moderately affected by changes in the demand for rooms, parallel to but above inflation throughout the 1970s and 1980s.

- The rate gap between large and small hotels is increasing with inflation. Rates do not decrease during recessionary periods.

- Rate increases are more likely cost-driven than demand-driven since correspondingly rapid rate increases do not occur during periods of high demand (with the exception of Expo).

- British Columbia's rate performance is well below that of Canada's average. There is an opportunity to increase rates to match this average.

c) Overall

- In terms of regional and property groupings performance, there is dramatic disparity between economic regions and between size grouping of hotels.

  The poorer performance of outlying regions (with smaller hotels) and the poor performance of smaller hotels in general is probably related. However, even in the large urban centres performance in smaller hotels still tends to be poor.

- Resorts and large hotels make up only 26% of the province's available rooms yet perform much better than their mid- and small-sized counterparts.

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IV

MARKET AND COMPETITIVE ENVIRONMENT

In this chapter, we focus on three elements of the lodging industry development. First, we explore the market demand segments province-wide by reason for travel, origin and destination. Then, we explore the trends in the marketplace and development in recent years in British Columbia.

To perform the market analysis, we reviewed numerous secondary data sources including the 1987 Visitor Accommodation Survey, 1985 Resident Travel Survey and various publications analyzing current research in the business and pleasure travel market. In addition, we analyzed our own primary data through our survey responses. To analyze trends in development, we explored current development patterns in British Columbia, renewed various publications on current development trends in North America and spoke with numerous representatives of major developers and chains in British Columbia and North America. In many instances, we chose to compare British Columbia's performance with their American counterparts primarily because of the increased availability of quality information especially in the market analysis areas.

A. MARKET DEMAND FOR HOTEL ROOMS IN BRITISH COLUMBIA

1. Business and pleasure share equal billing in British Columbia's hotel market

Among the 607 transient hotels in our sample, over 9 million room nights were sold in 1988. According to the hoteliers the mix of clients by market province-wide is as follows:

EXHIBIT IV-1
Breakdown of province-wide market demand

	% of Total	# of Rooms Sold (000s)
Business/government	40%	3,606
Convention/meeting	13	1,172
Tourist	37	3,335
Tour	10	901
TOTAL	100%	9,014

The two basic markets in British Columbia are the business market (made up of corporate, government, conventions and meetings) and the pleasure travel market (made up of tourists, tours, weekend travellers, recreational and other markets). Business and pleasure markets have an equal presence in British Columbia on an annual basis. The total business market provides 53% of total rooms demanded. The pleasure market provides 47% of the province's demand for hotel rooms. Note the tour category contains all types of package tour business, not just bus tours.

2. The business market plays a major role in the off-summer season

By abstracting information from the British Columbia Non-resident Travel Survey of 1987, we were able to estimate the number of hotel rooms demanded by non-resident and resident travellers in British Columbia during the four summer months when the survey was performed. While the mix of demand segments is likely overstated for the period (because of the lack of similar resident travel information), the general trends indicated and the total volumes of rooms demanded are reflective of the actual marketplace. The seasonal mixes were as follows:

EXHIBIT IV-2
Mix of market demand by season

	4 months July - October		8 months November - June			
	%	Rooms Sold (000s)	%	Rooms Sold (000s)	%	Total Sold (000s)
Business/government	6%	222	64%	3,384	40%	3,606
Convention/meeting	4	148	19	1,024	13	1,172
Tourist	73	2,696	12	339	37	3,335
Tour	17	630	5	271	10	901
TOTAL	41%	3,696	59%	5,378	100%	9,014

Note: Seasonal breakdowns based on Non-resident Travel Survey

The large majority of our room demand that comes as a result of the business and convention/meeting market occurs during the eight off-summer months while the bulk of room nights demanded by our tourist market occurs during the summer peak periods. This pattern of seasonal demand from the tourist market was expected.

3. British Columbia residents and non-residents share an equal role in demand for hotel rooms

According to our survey results, room nights demanded in the province are evenly split between residents and non-residents.

EXHIBIT IV-3
Room demand by origin, 1988

British Columbia resident	50%
Alberta	13
Ontario	8
Other Canada	6
Western United States	11
Other United States	5
Europe	3
Asia	3
Other	1
TOTAL	100%

This mix, excluding British Columbia residents, compares favourably with the Visitor '84 origin data which also indicate the majority of our non-resident visitors come from the Western United States and Alberta.

Non-resident visitors are likely to spend more on these hotel room rentals than British Columbia residents because they tend to visit during the summer peak periods when rates are the highest. This means that even though non-resident tourists represent only 50% of the market they contribute more to hotel incomes than British Columbia resident counterparts. It can be inferred that British Columbia residents tend to use hotel rooms in British Columbia more during the off-season months when rates are lower, thus contributing less total dollars to the hotels. However, since off-season demand is so slow, even the smaller amount of income from British Columbia residents play an important role in the hotel industry.

B. REGIONAL VARIATIONS OF MARKET MIX

1. By region

Not each region of the province analysed in our study benefits to the same degree from the province-wide mix of demand. The following exhibit presents the regional mix by demand segment as reported in our survey.

EXHIBIT IV-4
Market mix by region

	1A	1B	2A	2B	2C	3	4	5	6	7	8	Total Province
Business/commercial	28%	43%	44%	3%	N/A	28%	49%	48%	37%	33%	66%	40%
Meetings/convention	11	8	12	13	N/A	9	9	5	2	5	10	13
Tourist	52	44	38	52	N/A	55	39	37	47	58	16	37
Tour	9	5	6	32	N/A	8	3	10	14	4	8	10
TOTAL	100%	100%	100%	100%	N/A	100%	100%	100%	100%	100%	100%	100%

a) Business/commercial demand is most important in the northeast and southwest

This segment is important throughout the province because of the total room demand it generates. Even more important is that the room demand occurs on a year-round basis and is not as affected by seasonal variations. Key areas of the province that rely heavily on commercial demand are Vancouver Island, GVRD, the Kootenays, the Cariboo and the Northeast regions. All these areas rely on over 40% of their demand to come from the commercial sector. The Cariboo figure is heavily affected by commercial demand in Prince George. It should be noted that if tourism regions are used, the commercial emphasis would transfer from the Cariboo to Nechako.

b) Convention/meeting demand is influenced by convention centre locations

This segment plays a small role in almost all regions of the province; but again, because demand from this segment often occurs during the slower winter months, its impact is significant. Three regions of the province rely heavily on this segment: Victoria (11%), GVRD (12%) and Whistler (13%). Three of the four of the province's existing convention centres are located in these areas. Many smaller regional meetings also occur in the Lower Mainland.

c) Tourists are the province's mainstay

Like commercial demand, tourist demand for hotel rooms plays a key role in the demand for hotel rooms throughout the province. Even though this demand occurs primarily during the summer months, high average rates combined with high occupancies caused by this segment make tourism demand crucial to the British Columbia marketplace. The Northeast is the only region of the province that does not derive more than 30% of its market from tourism, while Victoria, Whistler and the Thompson/Okanagan all rely on tourism for over 50% of their markets. Each of these areas are renowned for their tourism appeal. The Nechako region without Prince George also recorded the highest tourist percentage, 58%.

d) The tour market is small but has significant potential

The tour market plays a modest role throughout the province providing a total of 10% of the province's demand for hotel rooms. Only Whistler relies on the tour market for demand much greater than the average, with 32% of their market coming from packaged tours. Whistler's successful ability to package and sell itself as a complete destination plays an important role in the success of the resort.

* * *

While all regions of the province receive some business from all the sectors of the market, individual hotels within a particular market may have a mix much different from the average. This is particularly true with the conventions/meeting and tour markets. Individual hotels can target these groups well with product variation such as meeting rooms, by hotel size or with location advantages, i.e., by convention centres or tour routes, all enabling them to affect their market demand and mix.

2. Property size and type also affects market mix

Each of the province's hotels by size and type have very different market mixes as indicated in the following exhibit.

EXHIBIT IV-5
Market mix by type of hotel

	A Resorts	B 250+ Rooms	C 76-250 Rooms	D 15-75 Rooms	Total
Business/commercial	19%	39%	49%	38%	40%
Convention/meeting	18	26	11	7	13
Tourist	50	21	29	51	37
Tour	13	14	11	4	10
TOTAL	100%	100%	100%	100%	100%

a) Resorts do not rely solely on tourist demand

The province's resorts rely primarily on tourist demand. This is not surprising considering the vacation focus of most resort properties. However, the other markets of commercial and meetings also play an important role with close to 20% of demand coming from each of these sectors. Clearly, some resorts focus heavily on the meeting and convention markets during the off- or shoulder seasons for the resort provincial average to be so high in this market. The province's resorts are equally divided between Vancouver Island, Whistler, Southwest British Columbia, Thompson/Okanagan and Kootenay. Whistler is the largest resort with 36% of the room supply.

b) Hotels larger than 250 rooms exhibit market mix trends similar to their American counterparts

The majority of British Columbia's largest hotels are all located in Vancouver, but larger properties are also located in Victoria , Harrison and Whistler. Not surprisingly, these hotels exhibit trends similar to large hotels in the United States and Canada, but are dissimilar to their smaller British Columbia counterparts. Tourist and tour markets provides only 35% of large hotels' demand while corporate/commercial and convention/meeting provides 65% of demand. This is likely a result of the location, national and international chain affiliation, and marketing efforts of these hotels and the City of Vancouver.

c) Mid-sized hotels' largest demand is from the commercial sector

The mid-sized hotels in British Columbia are located almost entirely in Vancouver (50%), Victoria (15%), Vancouver Island (7%) and Thompson/Okanagan (12%). The rest are evenly split across the province. Like their larger counterparts, they rely heavily on commercial demand and to a lesser extent the convention and meetings markets. Together, these markets provide 60% of demand for these hotels compared to 65% for 250+ room properties. The regular tour and tourist market make up the remaining.

Outside of Vancouver and the Empress Hotel in Victoria, most communities' leading hotels fall into this size category. As a result, these hotels usually serve as a community's leading service centre and they usually have a large commercial business.

d) Small hotels cannot address the tour or meetings market

British Columbia's smaller properties performed the poorest in 1988 with 47% occupancy and $34 room rate. Their market mix is a reflection of this poor performance. Smaller properties do not have the space for the meetings market, or the number of rooms necessary to address the tour market. Thus, their few patrons are either business/commercial (38%) or tourists (51%). Since tour and meeting/convention markets are often shoulder season markets, small hotels are doubly impacted by their inability to address these markets.

3. Conclusions on market mix by region and group

British Columbia hotels compete based on their location, size and market focus. Clearly, the previous data on occupancy and rate performance and that of market mix shows that certain segments of British Columbia's hotel market perform better than others. The reasons for these performance variations are numerous and individual hotels in regions and types may perform better than the average of their group. However, overall we can note:

- The province is heavily dependent on both the pleasure travel market and the business market. However, while the business market generates relatively constant demand year-round, the tourist market is very seasonal. This results in both these markets being critical to the success of the British Columbia hotel industry.

- Provincially, hotel room demand is equally divided between resident and non-resident travellers and each of these markets plays a critical role in the industry. The non-residents create high occupancies and high rates in the summer season and the residents provide the steady year-round and off-season demand that is critical to the survival of the industry.

- Occupancies and rates throughout the province indicate an oversupply of rooms particularly in the mid-sized to small hotel groups. There are two explanations for this oversupply:

- Many hotels were constructed primarily to achieve beverage licences, not to fill rooms.
- Many hotels have been built to meet the strong summer demand from tourism but remain empty much of the winter season.

C. TRENDS IN BUSINESS AND PLEASURE TRAVEL

There are two generic sources of room demand in the hotel industry: business demand, made up of the commercial, government, meetings and conventions segments, and pleasure demand, made up of various tourist, tour, recreational and other segments. In most regions of North America, the business market is the primary generator of room demand with the pleasure market generating less than 40% of market demand. In British Columbia, pleasure demand is closer to 50% of our market. The following section briefly looks at changes and trends in both these markets and how they may affect the lodging industry.

1. The business travel market is showing strong growth

According to American statistics, the growth in business travel has increased greatly in recent years. This is a result of an increase in both the number of business trips taken per person and more people taking business trips.

EXHIBIT IV-6
American business trips, 1982-87 (000,000s)

	1982	1983	1984	1985	1986	1987
Business trips	101.9	103.6	114.5	133.3	140.0	157.5
% change		2%	11%	16%	5%	13%

Source: United States National Travel Survey.

According to the United States Travel Data Center, there are three main causes of the increased business travel:

- An increase in the number of women travellers from 35% in 1985 to 38% in 1987. Women travellers also have a greater tendency to use hotel rooms in the upper end of the hotel market and to attend meetings and conventions.

- An increase in male travellers between 35 and 44 years of age(this group has the greatest tendency to travel on business). The baby boom market segment is better educated, has a greater tendency to use hotel rooms and is more likely to use other services associated with travel such as car rentals, travel agents and airlines. This traveller, with experience in travelling, is far more demanding than most.

- An increase in travel for service industry professionals. Service industries are the fastest growing economic sectors. This group of travellers is made up primarily of sales people and consultants. They have a preponderance to use hotel rooms but since 42% are self-employed, may be price conscious.

a) To attend a meeting is the dominant reason for a business trip

Over one-third of all business travel is taken to attend a meeting or convention (see Exhibit IV-7).

EXHIBIT IV-7
Reason for business travel

	Percent
Attend meeting or convention	41%
Consultant	13
Personal business	13
Sales (product/service)	12
Manage	7
Perform physical function	5
Other purpose	9
TOTAL	100%

Source: Survey of Business Travellers, 1987.

While demographic and business cycle shifts have caused an increase in certain areas of business travel, meetings and conventions still play the dominant role in business travel. The meetings and conventions market is important to the hotel industry not only because of its relative size, but because of the preponderance of meeting and convention attendees to use hotel rooms, 83% spend two to three nights in a hotel. This segment is also made up of 45% women and has a tendency to be better educated.

b) Growth in meeting and convention demand has paralleled that of business travel in general

Meetings are growing in number while becoming smaller in size. Important to the province's many mid-sized hotels is the corporate meeting market making up 64% of meeting market attendees with a small average meeting size of 58 (see Exhibits IV-8 and IV-9).

EXHIBIT IV-8
Meeting and convention attendees, 1981-87 (000s)

	1981	1983	1985	1987
Corporate meeting	42,335	36,831	39,788	47,344
Convention	9,475	12,110	13,537	10,739
Association meeting	13,039	14,417	18,173	16,321
TOTAL	**64,849**	**63,358**	**71,498**	**74,404**
% Growth		**-2.3%**	**12.8%**	**4.0%**

EXHIBIT IV-9
Size of meetings and conventions, 1981-87

	1981	1983	1985	1987
Corporate meeting	60	51	56	58
Convention	899	1,044	1,106	848
Association meetings	104	97	120	90
TOTAL AVERAGE SIZE	**76**	**72**	**79**	**74**

Source: Meetings Market, 1987 - Murdoch Magazines.

Convention demand is also beginning to play a significant role in the British Columbia meetings market with the construction of the Victoria, Vancouver, Whistler and Penticton convention centres. Meetings represent 11% of the British Columbia market compared to 10% of the American market, however, the split between meetings and conventions is different.

EXHIBIT IV-10
Meeting versus convention, 1987/88

	United States	British Columbia	
	1987	1987	1988
Corporate meeting	63%	81%	73%
Conventions	37	19	27
TOTAL	100%	100%	100%

Source: Meeting Market Survey, 1987 - U.S. Data, Tourism British Columbia

The convention market is playing an increasingly important role in British Columbia since it is able to attract demand during the winter or off-shoulder seasons. Convention demand can build in British Columbia without affecting other market segments.

c) British Columbia hotels need to effectively address the business market

British Columbia hoteliers need to pay close attention to the changing needs of the business market. More women travellers and increasingly sophisticated travellers mean hotels need to provide newer and more effective services and products to match business travellers' needs. Successful business hotels will need to be large enough to provide meetings space to groups between 50 and 100 people and have enough rooms to service the meetings market without displacing their base of transient customers. In addition, British Columbia hoteliers need to note that nearly one-third of business travellers combine a vacation with a business trip. This coincides with the tendency of pleasure travellers to take shorter, more frequent vacations. Weekend packages with affiliated resorts or destination area hotels may assist hoteliers in addressing this market change.

2. The pleasure travel market is very different from the business market

The American pleasure travel market is more than twice the size of the business travel market and has been growing between 8% and 10% annually in recent years.

The American pleasure market is evenly split between men and women. It has a greater number of older travellers and its income is much less than business travellers. More pleasure travellers travel in groups greater than one and stay away from home longer. They are less likely to use hotel rooms than business travellers (see Exhibit IV-11).

EXHIBIT IV-11
Comparison of business and pleasure markets

	1987 United States				1987 British Columbia	
	Business		Pleasure			
Sex	62%	male	Even		N/A	
Age	60%	>25 <45	25%	>55	37%	>55
Education	44%	college	26%	college	N/A	
Income	63%	>$30,000	53%	<$30,000	N/A	
Average Party Size	1.3		2.0		2.6	
Nights away	4.0		5.4		5.7	
Use hotel rooms	73%		16%		16%	
Volume, 1987	157.5 (million)		444.9 (million)		11.0 (million)	

Source: Survey of Business Travellers, National Travel Survey, Visitor '87 (British Columbia).

British Columbia's total visitor profile compares closely to that of the American pleasure traveller. This is probably due to the B.C. Travel Survey time of data collection between July and October. It tends to capture the majority of pleasure travellers to British Columbia, many of whom are Americans, and few of the business travellers.

a) British Columbia's travel market is growing faster than the American average

In 1988, British Columbia had 1.7 million more visitors than during its Expo year or a 13.9% increase in visitor volume (see Exhibit IV-12).

EXHIBIT IV-12
Recent visitor growth - British Columbia

	1986	1987	1988 (est.)
BC residents	5,700	5,600	)
Rest of Canada	2,710	2,549	) 12,924
United States	3,594	2,650	)
International	898	815	976
TOTAL	12,202	11,600	13,900
% Change		-4.9%	19.8%

Source: Tourism B.C.

British Columbia's visitors generate close to one-half of the province's room demand. There is, however, a shift in the visiting patterns of this group as can be seen in the selected data from tourism studies from 1963-87 (see Exhibit IV-13).

Significant trends found in these studies include:

- ► A reduction in party size and correspondingly a decrease in the number of children in the groups. In addition, a reduction in time spent in British Columbia.

  These trends are consistent with recent findings that people are taking more frequent, shorter pleasure trips, often in conjunction with business travel.

  To successfully match this market, hoteliers need to provide quality short packages with the flexibility to be spur of the moment. Resort properties could capture this market by creating close links with business hotels so that cross-business/pleasure travellers have easy access to destination areas.

- ► A reduction in Alberta-based visitors and a dramatic increase in American travellers from other than California and Washington. Hotels can address this change by shifting their market focus to cover more regions of the United States. This could be done most economically with joint marketing efforts with other hotels or travel tourism firms.

EXHIBIT IV-13
B.C. Travel Survey comparisons of selected issues

	1963	1974	1979	1987
Party size	3.4	3.0	2.7	2.6
Parties with children	46%	35%	23%	18%
Origin				
Alberta	28%	30%	33%	19%
Other Canadian	11	9	14	15
Washington	25	27	18	14
California	15	13	11	13
Other United States	20	20	18	29
Offshore	1	1	6	10
	100%	100%	100%	100%
Length of stay in British Columbia (nights)	6.2	6.2	6.1	5.7
Daily $/person	18	27	23	50
Allocation				
Accommodation	21%	25%	22%	26%
Transportation	25	20	18	17
Meals and groceries	30	36	33	26
Recreation and entertainment	7	8	7	4
Shopping and other	17	11	20	27
	100%	100%	100%	100%
Accommodation				
Hotels	7%	9%	16%	16%
Motels	45	32	30	24
Campgrounds	28	35	28	24
Friends/relatives	18	18	22	25
Resorts, lodges, B&B and other	2	6	4	11
	100%	100%	100%	100%

Source: Tourism B.C.

- Travellers are spending more of their larger travel dollar on accommodation and shopping. Hotels can benefit from this trend by increasing amenities in their product offering to enhance their room rates. In addition, hotels should encourage relationships with retail outlets either inside their hotel or nearby to better satisfy this customer need.

- There is a shift away from motel and campground use and towards resorts, lodges and bed and breakfast (B&B) lodging properties. Hotels can benefit from this shift by designing their product offering in two general ways: economy oriented to capture the shift from motels or by creating a more home-like atmosphere to better compete with the B&B properties.

b) British Columbia's share of the tour market has grown substantially in recent years

Since 1984, British Columbia's share of the tour travel market has grown from eleventh in North America (compared to all states and provinces) to third during Expo, and remained third in 1987 (see Exhibit IV-14).

EXHIBIT IV-14
Tour growth in British Columbia, 1985-87 (000s)

	1985	1986	1987
Total trips	10.3	27.6	25.7
Total passengers	369.4	1,025.3	984.7
Total days	2,109.1	4,354.8	3,743.7
% change		16.6%	-14.0%
B.C.'s rank in North America	7th	3rd	3rd

Source: National Tour Foundation.

British Columbia's tour market tends to stay more nights than the North American average of 4.5 nights in those tours that had overnight stays. In British Columbia, the average is 5.1 nights.

In 1988, tour market demand generated 10% of British Columbia's hotel room demand and 8% of the total travel market in 1987. It has grown from 5% of total travel demand in 1987. Growth in the British Columbia tour market is a result of:

- Increased number of older travellers and the tendency for older travellers to use tours because they are dependable and provide secure travel plans.
- The increase in international tour travel, in particular Japanese, who have a tendency to want to travel together on controlled reliable trips.
- The increased tendency for shoulder season or off-season tours.

The resort area of Whistler and the City of Victoria obtain the greatest benefit in their regions from the tour market. Though increasing, this market is also staying fewer days away from home, spending more and demanding more services.

For British Columbia hotels to best address this market, they should associate closely with travel wholesalers, have enough rooms so that transient guests are not completely displaced by tours and provide quality full-service facilities to this market. Increasingly, the tour market will want a variety of experiences including shopping, touring and entertainment.

c) Conclusions to the pleasure market

Only a few hotels in British Columbia currently rely solely on the pleasure market and operate successfully. Those properties are all destination resorts offering a unique package of goods and services and usually for three or more of the year's seasons. Other hotels usually rely on strong summer season demand from tourists then compete in the off-season for relatively few business and pleasure travellers.

D. PRODUCT DEVELOPMENT TRENDS IN NORTH AMERICA AND BRITISH COLUMBIA

Increasingly, the North American hotel market is becoming segmented with the offering of new and different combinations of physical facilities (usually rooms) and services provided. This trend in segmentation is a relatively new phenomenon in the hotel industry with most segmentation occurring in the last 10 years.

Segmentation in the hotel industry can be seen in many new hotel products addressing business or pleasure markets with multiple product or service offerings.

1. The North American hotel market is chain-oriented and segmented by the business and pleasure markets

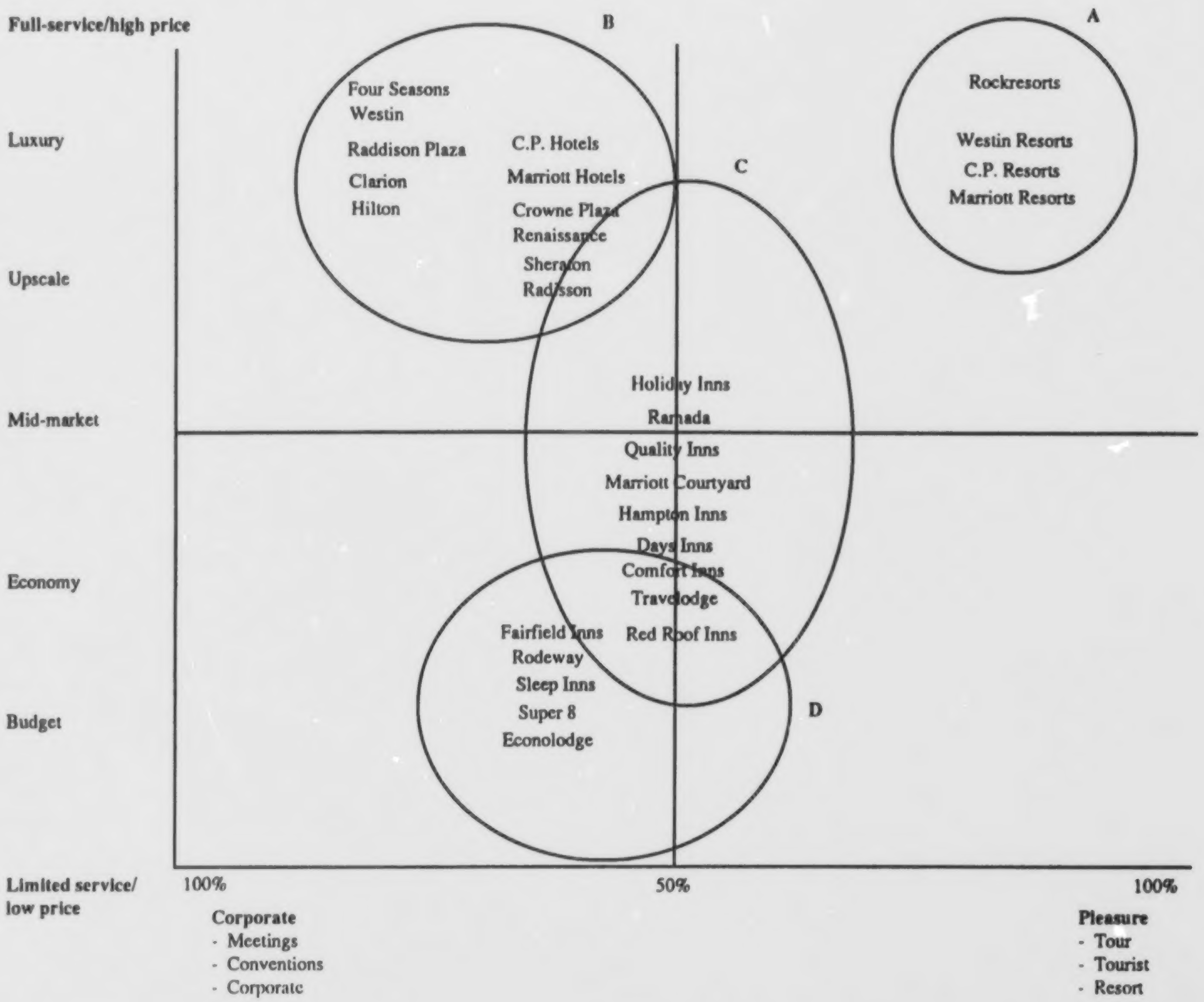
Close to 65% of all hotels in North America have some form of chain affiliation. Chains with their large interactive reservation systems, market presence and operation efficiencies are able to dominate much of the hotel market. Small, unaffiliated hotels tend not to perform as well as chain properties on the whole. However, some individual unaffiliated properties with strong market focuses or presence in a community or region may perform significantly better than even the chain hotels.

The development trends of hotel chains tends to reflect movement in the industry and Exhibit IV-15 (Major chain segmentation -- business/pleasure) provides a sample of chain segmentation.

Where once Holiday Inns dominated the entire market except the very top and very bottom, today many chains service the hotel market with many products. There are four major chain product segments:

- **The upscale pleasure market (A)** -- These properties, usually destination resort properties, cater to pleasure travellers (70%-75% of their market) and to a lesser extent the business and meeting market (20%-25%). These hotels are represented by chain resorts such as Westin Resorts, Rockresorts, C.P. Resorts and others.
- **The upscale luxury market (B)** -- This market caters to the corporate/commercial, convention and meeting market primarily (65%-70% of their demand), but also to some tourism (30%-35% of their demand). These include chains such as Marriott, Westin, Hyatt and numerous others.
- **The mid-market (C)** -- These properties, like Holiday Inns, Ramada and Quality Inns, cater to both business and pleasure relatively equally, approximately 55% business and 45% pleasure.
- **The economy and budget market (D)** -- This segment is represented by a number of chains including Marriott with the Fairfield Inn and Marriott Courtyard, Holiday Inns with its Hampton Inns, Ramada with its Rodeway products, Travelodge, Super 8 and others. This group caters about 55% to the business market and 45% to the pleasure market.

EXHIBIT IV-15
Major hotel/chain segmentation by business and pleasure market, North America


Full-service/high price
Luxury
Upscale
Mid-market
Economy
Budget
Limited service/ low price
100%
50%
100%
Corporate
- Meetings
- Conventions
- Corporate
Pleasure
- Tour
- Tourist
- Resort
A
Rockresorts
Westin Resorts
C.P. Resorts
Marriott Resorts
B
Four Seasons
Westin
Raddison Plaza
Clarion
Hilton
C.P. Hotels
Marriott Hotels
Crowne Plaza
Renaissance
Sheraton
Radisson
C
Holiday Inns
Ramada
Quality Inns
Marriott Courtyard
Hampton Inns
Days Inns
Comfort Inns
Travelodge
Red Roof Inns
D
Fairfield Inns
Rodeway
Sleep Inns
Super 8
Econolodge

Individual properties within a segment may have different mixes unique to their marketplace but overall this is a representative sample of the groups by market focus in the industry today. The industry has evolved in its understanding of the market and needs of the travelling customer to segment their product offering through more than just price. Many chains design rooms, amenities and service packages specifically directed at certain segments of their travel market. While the industry will always be dominated by segmentation by price, refinement in product offerings will further segment hotel chains and individual hotels in the market.

2. Proliferation of brand segmentation is found in the all-suite market

The all-suite market is the most successful differentiation strategy by-product offering currently employed by the hotel industry. Started in the mid-1970s, this market strategy gained national recognition with Holiday Inns' introduction of Embassy Suites.

The suite concept is to provide extra large (400-700 feet) home-like guest rooms that usually include separate living and sleeping rooms, a small limited or full kitchen and other product amenities such as VCRs, two TVs, hair dryers and many of the amenities expected in one's own home. The hotels usually provide full breakfasts and often a complimentary cocktail hour to customers. This is all provided at prices similar to that of a standard full-service hotel. This product/service offering at a reasonable price is very attractive to large portions of the travelling market that uses hotel rooms, in particular to those business travellers staying longer periods and needing more space, women business travellers who value the privacy of separate rooms and families needing the space and separate rooms at reasonable rates offered by this segment.

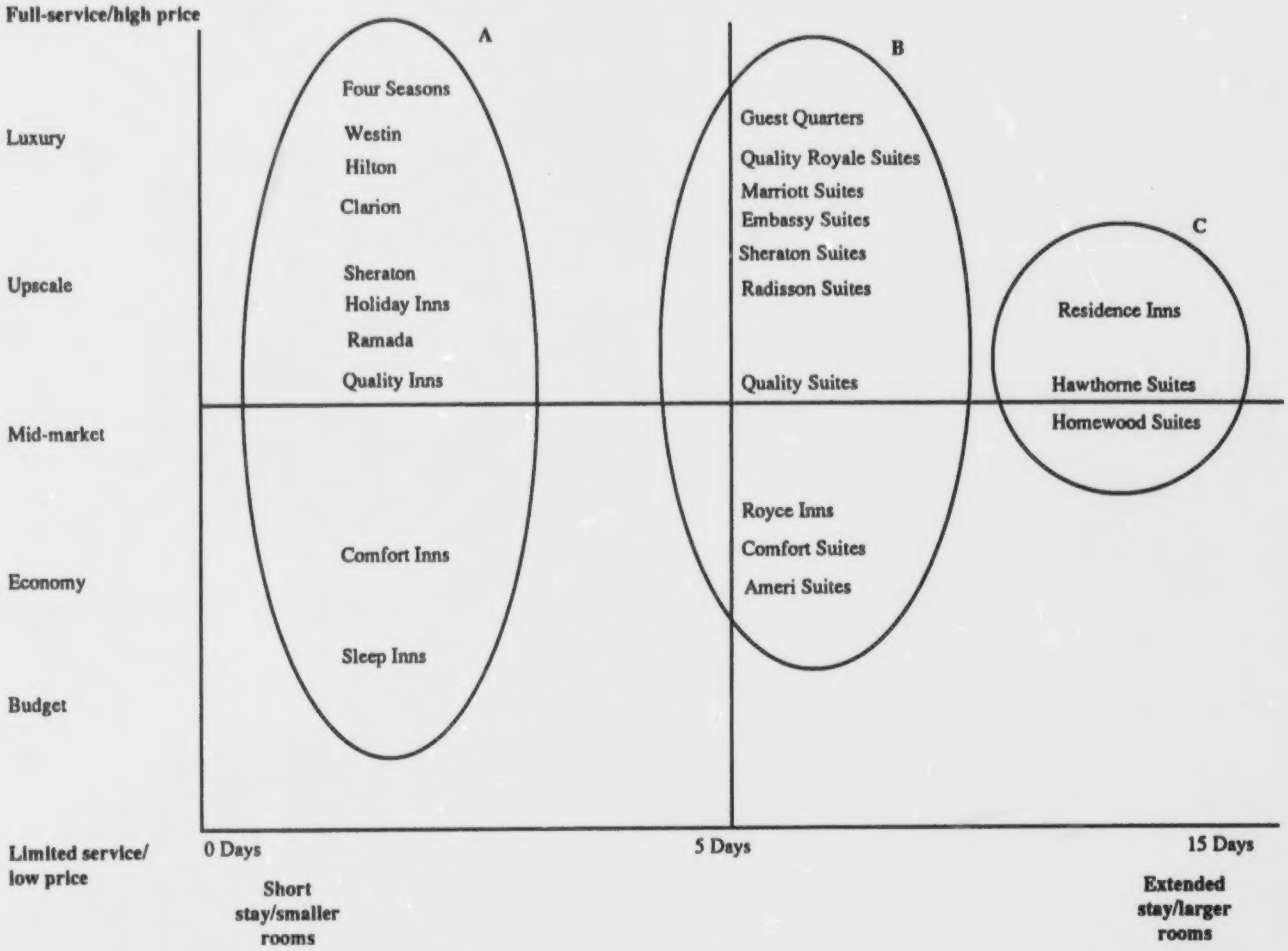
All-suite hotels can price their product and service competitively because the hotels are usually designed with less public areas and food service facilities than standard hotels. This reduces cost of construction and labour costs of operations so that more can be spent on room quality and design. Exhibit IV-16 shows the segmentation in the all-suite market by length of stay.

The all-suite market has now been further segmented by a group of hotels that focus on customers needing accommodation for more than one week at a time (extended stay): the most successful and largest of these is Marriott's Residence Inns properties.

The three groups shown in Exhibit IV-16 include:

- **Standard hotel chains (A)** -- These hotels, such as Holiday Inns and Comfort Inns cater to customers who normally stay only one to two days. (The majority of the hotel industry addresses this market.)

EXHIBIT IV-16
Major hotel/chain segmentation by length of stay, North America


Full-service/high price
Luxury
Upscale
Mid-market
Economy
Budget
Limited service/ low price
0 Days
5 Days
15 Days
Short stay/smaller rooms
Extended stay/larger rooms
A
Four Seasons
Westin
Hilton
Clarion
Sheraton
Holiday Inns
Ramada
Quality Inns
Comfort Inns
Sleep Inns
B
Guest Quarters
Quality Royale Suites
Marriott Suites
Embassy Suites
Sheraton Suites
Radisson Suites
Quality Suites
Royce Inns
Comfort Suites
Ameri Suites
C
Residence Inns
Hawthorne Suites
Homewood Suites

- **Middle length of stay market (B)** -- Hotels in this group include the industry's dominant player, Embassy Suites, with an average length of stay of three to five days. This group also is segmented by levels of service provided and by price.

- **The extended stay market (C)** -- This segment is dominated by Residence Inns with a 12-15 day average length of stay. There are many new entrants to the market, none with the position held by Residence.

3. Major hotel segmentation in British Columbia has not occurred to the same level as other parts of North America

British Columbia has not felt the full impact of the trend to product segmentation in the hotel industry. While some individual hotels provide some aspects of the segmentation trend in the industry, British Columbia's hotels have tended to remain grouped in the mid-market focusing equally on the business and pleasure traveller. As yet, no all-suite chain property has been built in British Columbia. Exhibit IV-17 presents a graphic display of the current British Columbia hotel market by price and service level and by corporate or pleasure market focus. Note this grouping somewhat corresponds to our own A B C D categories.

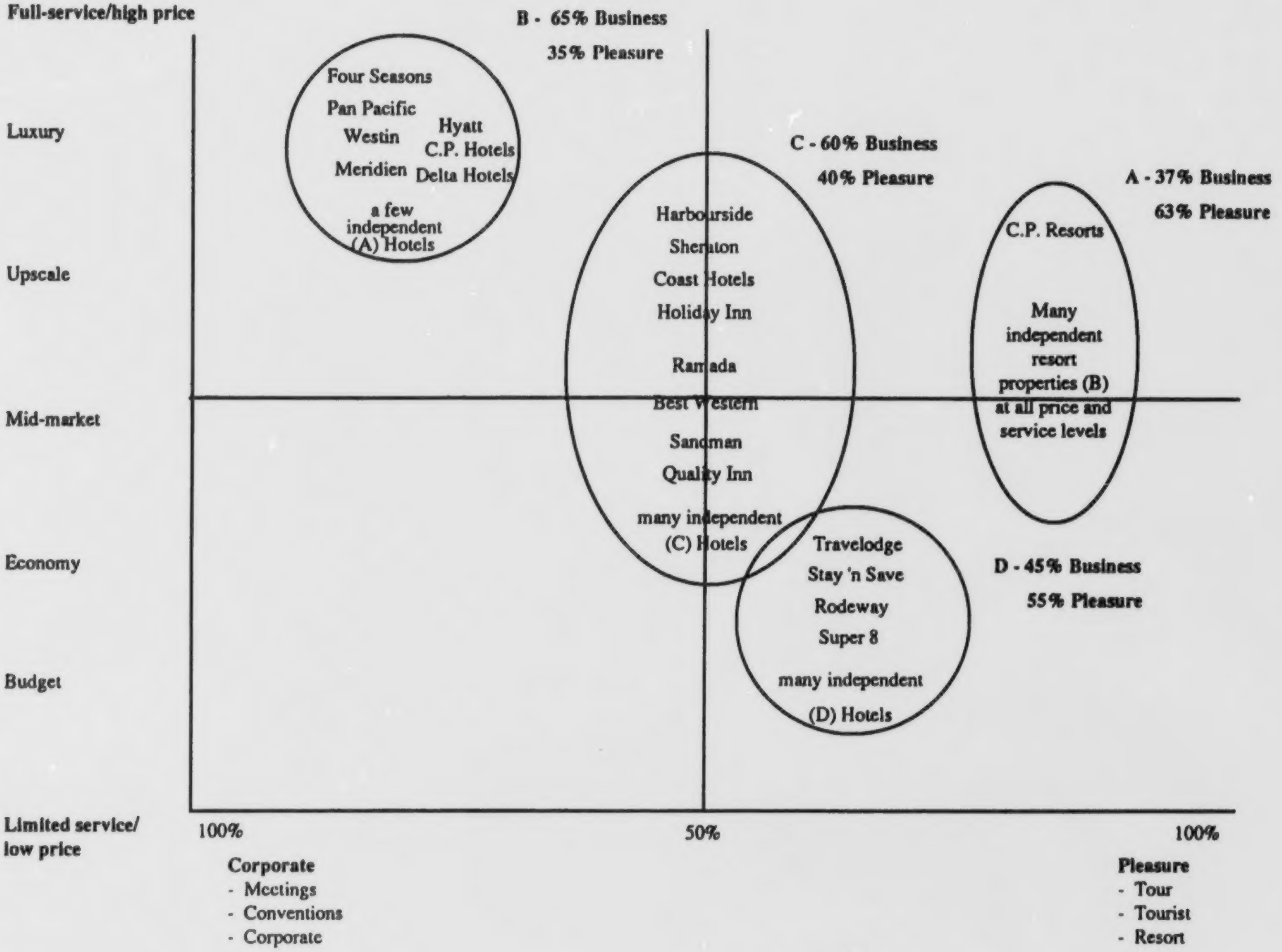
As indicated, there is a tendency for British Columbia properties to provide services and prices at the mid-level and equally focused on business and pleasure. Some individual hotels, especially larger, chain affiliated Vancouver hotels (B) are more adept at targeting the business traveller and meeting market customer during the non-tourist months of the year (partly due to Vancouver's greater commercial market). These hotels are able to maintain a mix of demand that provides them 60%-70% commercial and meetings demand and 30%-40% pleasure. But the majority of hotels outside this region focus on an even mix of strong tourist demand in the short summer months and small amounts of business demand through the remaining months providing an average mix around 50% business and 50% pleasure over the year.

In future, even with market segmentation of price offering and the introduction of all-suite hotels, British Columbia's hotel market will still be more strongly influenced by the pleasure traveller than the industry's North American counterparts. However, specific markets within the overall market will be better serviced with new product development, such as the all-suite hotels mentioned, and these newer hotels should perform better than the marketplace.

E. RECENT AND FUTURE TRENDS IN BRITISH COLUMBIA

Since the building boom of the early 1980s, the British Columbia interior and small towns have seen little new regional hotel development. But there has been some growth in the industry. This has been in three general areas:

EXHIBIT IV-17
Major hotel/chain segmentation by business and pleasure market, British Columbia


Full-service/high price
Luxury
Upscale
Mid-market
Economy
Budget
Limited service/ low price
B - 65% Business
35% Pleasure
C - 60% Business
40% Pleasure
A - 37% Business
63% Pleasure
D - 45% Business
55% Pleasure
Four Seasons
Pan Pacific
Westin
Hyatt
C.P. Hotels
Meridien
Delta Hotels
a few independent (A) Hotels
Harbourside
Sheraton
Coast Hotels
Holiday Inn
Ramada
Best Western
Sandman
Quality Inn
many independent (C) Hotels
C.P. Resorts
Many independent resort properties (B) at all price and service levels
Travelodge
Stay 'n Save
Rodeway
Super 8
many independent (D) Hotels
100%
50%
100%
Corporate
- Meetings
- Conventions
- Corporate
Pleasure
- Tour
- Tourist
- Resort

- Resort properties.
- Downtown chain hotels.
- Budget or economy chain hotels.

British Columbia's hotels are divided into four major groups with the largest focusing on the middle of the market at various price levels.

- **The pleasure market (A)** -- This market is made up of the 75 resorts in our resort group and covers multiple price levels of the marketplace. The primary focus of these hotels is pleasure travel, but also some meeting and business demand is addressed.
- **The upscale luxury market (B)** -- Like their national counterparts, these hotels focus on the upper end of the corporate commercial market primarily.
- **The mid-market (C)** -- By far the largest group, this segment caters equally to the business and pleasure markets differentiated mostly by price.
- **The economy or budget segment (D)** -- Many of the hotels in this segment are relatively new to the British Columbia market and, like their North American counterparts, focus on limited service and low price to meet the large pleasure travel and business markets.

Consistent with the growth in these areas has been the increased average size of hotels in the province driven by the reduction of smaller hotels in the market and the construction of new larger properties. Almost all the new development provides for some form of chain affiliation or orientation for the hotels and all have a reasonably well defined position in the marketplace.

1. New resort properties have multiple market aims

Examples of recent resort development are Painters Lodge in Campbell River, Tyax Resort at Tyaughton Lake, the Best Western Fairways in Whistler and the new C.P. Chateau Whistler. Each of these hotels has been or will be able to focus its marketing efforts on specific target markets, both by origin of visitor and travel purpose. In many recent cases, the properties have some chain or group affiliation that enhances the market power of the individual property. In all cases, the pleasure travel market is the primary focus but the smaller meetings or conventions market is also addressed by these properties to boost shoulder season demand. While these properties have some food and beverage facilities, beverage sales are not the primary income generator.

2. New downtown hotels are chain affiliated

The Pan Pacific and Meridien Hotels are two examples of large downtown hotels recently constructed in Vancouver. Like their resort counterparts, these hotels are chain affiliated. They were built to address the upper end of the Vancouver hotel market with superior service and amenities packages.

Their large size and chain affiliation enables them to target markets to specific room demand markets such as the convention and meeting market without displacing their transient business commercial base. Rooms revenue should be the primary revenue generator for hotels such as these.

3. Budget or economy chain hotels will have a major impact at the lower end of the market

The Stay 'n Save Hotels in Richmond and Victoria, the Ramada in Victoria and the Relax Plaza in Richmond are all examples of lower-end chain affiliated hotels recently constructed in British Columbia. While these hotels will tend to provide rooms to a broad base of markets, all these markets will be consistent in that they are price conscious while value-oriented. These hotels provide basic hotel services and amenities at reasonable rates. Budget chain properties are successful because they are:

- ► Able to provide consistent levels of quality across their chain.
- ► Provide an interactive network reservation system to increase the ease of making reservations.
- ► Charge reasonable rates. New chain hotels are more price competitive than their older unaffiliated counterparts. This is not only because they provide limited service and amenities, but also because they are better designed for efficiency in areas of staffing and operation and because the level of technology used in these properties increases overall efficiency.

4. Future hotel development trends in British Columbia will follow recent trends in North America

In the future, many of the evolving North American trends will continue and find their way to British Columbia. In the future, we will see:

- ► Fewer smaller hotels, i.e., less than 75 rooms. This does not mean there will be a decrease in the number of rooms provincially since these small hotels will be replaced by larger more efficient properties.
- ► There will be an increase in chain affiliation of existing hotels and new hotels. Many properties will find that to remain competitive,

acquiring a chain affiliation and meeting a chain standard of room quality will be essential. The current proliferation of Best Western affiliations across the province is one example of this trend.

- The level of technological sophistication in the industry will increase. This will be in all areas of hotels including reservations, controls and operations. New technology will provide a competitive advantage for those hotels with the technology.

- Rooms revenue will become the dominant revenue-producing element in the hotel industry. Because many of the above efficiencies in hotels can only be achieved with larger hotel properties, the tendency for larger hotels will continue. Larger hotels focus on room sales because room sales provide such a large contribution margin to the bottom line. Revenue from this source will overshadow all other sources.

- One or two larger hotels will become the social and activity focal point for many outlying communities as smaller hotels exit the market.

F. BRITISH COLUMBIA'S HOTELS ARE DEPENDENT ON EFFICIENT, WELL-DEVELOPED TRANSPORTATION

1. Highways

Highways are the most important transportation link for business and pleasure travellers.

- The majority of visitors to British Columbia arrive by automobile, R.V., or bus via provincial highways. According to the Visitors '87 Survey, 73% of all visitors in 1987 arrived by land, 30% by air and 15% by water (ferry or cruise). These percentages indicate that visitors often use more than one means of transportation to get to British Columbia.

- While in British Columbia, 95% of all visitors use an automobile, R.V. or bus as a means of transportation, 20% travel by ferry or cruise and only 3% use air transportation.

- Most rooms-oriented hotels have been developed along major highway corridors and depend on highway traffic for business. By virtue of this dependence, highway development policy directly impacts the hotel industry. Highways initiatives that improve access, convenience or reduce driving time to an area will directly improve room demand in the area. However, it may also affect demand in other areas. The Coquihalla Highway, for example, improved room demand in the Merritt/Kamloops area but reduced room demand in Cache Creek. Overall, the net impact of highways projects such as the Coquihalla Highway will encourage more business and tourist travel and increase room demand.

The government has recently announced a major highway development program:

- The Coquihalla extension (Okanagan connector) from Merritt to Peachland is scheduled to be completed by 1990 at a cost of $225 million. The new route will considerably reduce the driving time between Vancouver and the Okanagan. An estimated 4,000-5,000 cars will use this portion of the Coquihalla Highway system every day during the peak summer months.

- The Cassiar Connector project will upgrade 2.3 kilometres of the Trans-Canada Highway between First Avenue and the Second Narrows Bridge to a freeway standard. The new highway lanes will be depressed into an open cut tunnel section in order to eliminate at-grade intersections with the City of Vancouver's street system.

  Benefits of the project include improved east-west traffic flow on Hastings Street, improved connections between the highway and Vancouver's Port road system and general traffic flow improvements on the Trans-Canada Highway. This highway is the main artery to Vancouver Island and Highway 99 that proceeds to Whistler.

- The Inland Island Highway is a $600 million highway construction program currently in the development phases, with completion scheduled for 1996. Immediate benefits of the project include reduced travel time (up to one hour less between Nanaimo and Campbell River), enhanced safety improvements and less vehicle wear and tear. The new highway will bypass the communities located on the present highway that will no doubt restore the ambience of many areas. Changes in the route location will affect current Island hotels which are dependent on highway business.

- The Sea-to-Sky Highway will continue to receive major improvements. Irregular topography and steep cliffs have made highway construction difficult and expensive. The Highways Ministry faces a major challenge in maintaining access through the construction area while keeping delays to a minimum. An improved Sea-to-Sky Highway will benefit Sea-to-Sky communities as well as provide another highway access to the interior. With the upgrading of the Duffey Lake section, additional tourist and tour opportunities will be created.

2. Air transportation

Air transportation is becoming an increasingly important mode of travel for business and pleasure travellers.

- ► According to the Visitors '87 Survey, 19% of all visitors surveyed arrived in British Columbia by air in 1979 whereas 30% utilized air transportation to reach British Columbia in 1987.
- ► Strong growth in transborder and international passenger volumes at the Vancouver International Airport reflects British Columbia's growing prominence in the international business and tourism marketplace (average 7% growth in the last four years).
- ► Travellers who arrive by air stay longer and therefore demand more room nights than those who arrive by land or water.
- ► In 1988, passenger volume at the Vancouver International Airport increased by 1.2 million over 1987 -- a 15% increase. This was the largest growth of any airport on the West Coast (see Exhibit IV-18). Growth of 7%-10% is projected for 1989 at the Vancouver International Airport.

EXHIBIT IV-18
Vancouver International Airport passenger volumes (millions)

1980	1981	1982	1983	1984	1985	1986	1987	1988
7.1	7.1	6.4	6.4	6.8	7.0	8.4	7.9	9.2

Source: Transport Canada.

Future growth in air travel is mitigated by several factors:

- ► Currently, the Vancouver International Airport is operating at capacity levels. The province must continue to insist that the federal government place top priority on solving the airport's runway and air terminal capacity deficiencies.

- Existing bi-lateral agreements between the United States and Canada restrict transborder air travel. The result is that Vancouver is not as well-served for air travel as Seattle or other major American cities.

- Improved air access into regional and community centres of the province has had a mixed impact on local hotels. While overall business activity is enhanced, room demand may actually decline due to fewer stay-overs as business travellers fly in and out in one day.

3. Ferries

Ferries are an important mode of transportation once visitors have arrived in British Columbia.

- 17% of the visitors to British Columbia surveyed in 1987 utilized ferry transportation for travel within British Columbia (see Exhibit IV-19).

EXHIBIT IV-19
British Columbia ferries passenger volumes (millions)

	1974	1979	1984	1988
Tsawwassen-Swartz Bay	3.9	4.5	4.6	5.4
Horseshoe Bay-Nanaimo	2.6	3.0	3.3	4.0
TOTAL	6.5	7.5	7.9	9.4

As the exhibit above indicates, passenger volumes of the two largest British Columbia ferries runs increased an average 5% per year the last four years.

- British Columbia ferry traffic is seasonal and tourism-influenced. Approximately 50% of yearly traffic flow occurs in June through September.

EXHIBIT IV-20
British Columbia ferries: seasonal passenger volumes (June to September)

	% of Total Yearly Traffic				
	June	July	August	September	Total
1974	10.0	13.8	15.2	9.5	48.5
1979	9.9	14.8	14.5	9.0	48.2
1984	9.2	13.9	15.7	9.3	48.1
1988	9.3	13.8	16.1	9.7	48.9

As the above exhibit indicates, there has been virtually no variance in the percentage of total yearly traffic that occurs in the summer months over the last 15 years.

The government has recently announced a major improvements program to modernize the ferry fleet, increase terminal capacity and improve highway approaches. Two new "super" ferries, capable of holding 470 cars, have been budgeted for completion in 1992 and 1993 at an estimated cost of $125 million each. Two smaller ferries, each holding 125 cars, have also been budgeted at $25 million per ship for completion in 1999. In addition, $82 million has been budgeted for terminal improvements at Swartz Bay ($15 million); Tsawwassen ($5 million); Horseshoe Bay ($30 million); Nanaimo ($8 million); and South Gulf Islands ($24 million).

Efficient transportation systems are essential for a growing tourism industry.

- ► The 1985 Non-resident Tourist Survey identified 15 changes that would prompt respondents to travel more in British Columbia. The single most important change was better highways and roads. The next major change was more reasonably priced accommodation, followed by cheaper gasoline prices.
- ► The Visitors '87 Survey identified traffic and the ferry system as two of the top five complaints of visitors to Greater Vancouver and Vancouver Island (others were weather, high prices and accommodation).

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V

FINANCIAL HEALTH OF THE INDUSTRY

A. CURRENT OPERATING RESULTS

From the results of our questionnaire, we have compiled the results for 131 properties covering 13,191 rooms across the province. These properties were broken down by type of property and by location in the eight economic zones of British Columbia plus a sub-breakdown covering Victoria, Vancouver and Whistler. The financial results across these types in economic zones were averaged to produce the results below. If insufficient hotels reported on a particular line item an "N/R" appears to represent "not reported." A breakdown of the number of properties reporting and the number of properties reported by economic zone are shown on Exhibits V-1 and V-2. The detailed schedule of the average of all financial results is shown on Exhibit V-7.

1. Resorts and large downtown hotels plus beverage hotels show the best results

Resort properties and large downtown hotels plus beverage hotels show the strongest performance in comparison of the hotels by type. A comparison of their income before interest, depreciation and income taxes as a percentage of total income is shown on Exhibit V-3. Resort properties show the strongest performance with 21.2% of total revenues, while the 15-75-room properties show the poorest performance at 11.1% of revenue. The non-transient beverage hotels show strong performance at 22.6% of total revenue.

Occupancies are strongest in the largest hotels and the resort properties as shown on Exhibit V-4. Again, the smaller properties suffer significantly on the occupancy scale with the 15-75-room category registering at only 50.3%. (Note: The occupancies and average room rates used in this section vary by a small amount from those reported in Chapter III. The figures presented in Chapter III represent a slightly larger sample.)

Average rates are strongest in the large downtown properties with resorts following, as shown on Exhibit V-5.

Please note the occupancies and average rates in the financial section do not exactly match the numbers in the market section. The numbers in the market section have been altered to reflect the weighted distribution of the sample.

The reliance on beverage income is low in the resort and chain properties and increases significantly in the smaller properties. The comparison with beverage income by type is shown on Exhibit V-6. Please note, these figures are understated for the larger properties due to the inability to segregate beverage revenues buried in the restaurant category. Smaller properties, from 15-75 rooms, are primarily dependent on the contribution from beverage alcohol. For the "D" properties the departmental profit for rooms is $184,500 or 14.5% of total revenue. Similarly, the departmental profit for beverage is $229,900 or 18.0% of total revenue.

EXHIBIT V-1
Number of properties reporting

	A Resorts	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage	Total
Number of properties	8	9	37	63	14	131
Number of rooms	1,015	3,985	5,062	2,759	370	13,191

EXHIBIT V-2
Number of properties reporting by economic zone not including "E" hotels

Economic Zone	Number of Properties	Number of Rooms
Greater Victoria	13	1,188
Vancouver Island	17	929
Mainland Southwest	3	89
Whistler	3	517
Greater Vancouver	31	6,230
Thompson/Okanagan	26	1,851
Kootenay	8	558
Cariboo	13	798
North Coast	7	412
Nechako	5	194
Northeast	5	425
TOTAL	131	13,191

Note: The "E" properties have been deleted from the economic zone analysis because of the skewing of results.

EXHIBIT V-3
Income before interest, land lease, depreciation and income taxes by type of property as a percent of total revenue

A Resorts	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage
21.2%	20.5%	16.6%	11.1%	22.6%

EXHIBIT V-4
Occupancy comparison by type of hotel

A Resort	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage
56.1%	70.5%	64.5%	50.3%	34.2%

EXHIBIT V-5
Average rate comparison by type of hotel

A Resorts	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage
$81.19	$100.06	$58.52	$36.83	$16.32

EXHIBIT V-6
Reliance on pub and lounge revenues as a percent of total revenues

A Resort	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage
5.4%	5.9%	22.8%	49.8%	90.1%

The hotel properties that are the most profitable are those that are committed to either being in the room business, the A and B properties, or those that are totally committed to being in the beverage alcohol business, the E properties. The C and D properties, that are a mixture of both rooms and beverage revenues, perform with the poorest overall results. A detailed schedule summarizing the average of all the results is shown on Exhibit V-7.

2. Vancouver and Whistler hotel properties show the best results

The summary of financial results by economic zone is shown on Exhibit V–8. Vancouver and Whistler have the highest income before interest, depreciation and income tax of all the areas in British Columbia. One exception to this is the Kootenay area that shows a stronger return relative to the rest of the province. Victoria and Vancouver Island show an unusually low return, partially explained by the modest occupancy and average rate. The unusually poor results in the Northeast are representative as the sample includes over 1/3 of the rooms in the area

EXHIBIT V-8
Summary of financial results by economic zone

	Income Before Interest, Depreciation and Income Taxes	Occupancy	Average Rate	Pub and Lounge Revenue as a % of Total Revenue
Greater Victoria (1A)	12.5%	58.4%	$60.94	32.9%
Vancouver Island (1B)	8.7	57.4	46.52	29.5
Mainland Southwest (2C)	N/A	N/A	N/A	N/A
Greater Vancouver (1A)	17.4	70.0	86.99	13.9
Whistler (2B)	28.8	65.6	86.81	6.0
Thompson/Okanagan (3)	17.4	51.9	51.88	22.8
Kootenay (4)	16.3	50.3	44.30	18.6
Cariboo (5)	17.3	61.5	49.00	24.9
North Coast (6)	19.3	61.0	41.87	21.2
Nechako (7)	9.0	41.8	29.84	53.0
Northeast (8)	4.8	48.1	36.66	37.1

Occupancies, not surprisingly, are highest in Vancouver and Whistler, with the majority of the other areas showing occupancies in the range of 50%-60%. Occupancies are unusually low in the Nechako and Northeast regions.

EXHIBIT V-7
Summary of results by type of hotel

	A		B		C		D		E	
	Resorts		>250 Rooms		75-250 Rooms		15-75 Rooms		Non-Transient Beverage	
Number of rooms	127		443		137		44		26	
Available rooms	46,309		161,614		49,936		15,883		9,434	
Occupied rooms	25,958		113,992		32,214		7,994		3,222	
Occupancy per cent	56.1%		70.5%		64.5%		50.3%		34.2%	
Average room rate	$81.19		$100.06		$58.52		$36.83		$16.32	
Operating revenues										
Rooms	2,107,500	51.5%	11,405,600	55.4%	1,885,200	47.0%	294,400	23.1%	52,600	7.0%
Restaurant	887,700	21.7%	6,660,100	32.3%	992,200	24.7%	290,400	22.8%	N/R	
Lounge	219,000	5.4%	1,213,900	5.9%	383,900	9.6%	106,500	8.4%	N/R	
Pub	N/R		N/R		531,800	13.2%	527,900	41.4%	674,800	90.1%
Cabaret	N/R		N/R		N/R		N/R		N/R	
LRS	N/R		N/R		N/R		N/R		N/R	
Telephone	46,000	1.1%	348,900	1.7%	81,300	2.0%	2,500	0.2%	N/R	
Other Income	829,300	20.3%	968,400	4.7%	140,400	3.5%	52,300	4.1%	21,800	2.9%
TOTAL	4,089,500	100.0%	20,596,900	100.0%	4,014,800	100.0%	1,274,000	100.0%	749,200	100.0%
Cost of Sales and Department Expense										
Rooms	637,700	30.3%	3,216,200	28.2%	609,500	32.3%	109,900	37.3%	32,800	62.4%
Restaurant	767,500	86.5%	6,127,800	92.0%	892,300	89.9%	241,000	83.0%	N/R	
Lounge	126,900	57.9%	609,800	50.2%	269,200	70.1%	71,400	67.0%	N/R	
Pub	N/R		N/R		335,900	63.2%	333,100	63.1%	343,900	51.0%
Cabaret	N/R		N/R		N/R		N/R		N/R	
LRS	N/R		N/R		N/R		N/R		N/R	
Telephone	53,300	115.9%	344,400	98.7%	74,900	92.1%	4,000	160.0%	N/R	
Other	411,200	49.6%	475,500	49.1%	64,400	45.9%	27,700	53.0%	N/R	
TOTAL	1,996,600	48.8%	10,773,700	52.3%	2,246,200	55.9%	787,100	61.8%	376,700	50.3%
Operating Department Income	2,092,900	51.2%	9,823,200	47.7%	1,768,600	44.1%	486,900	38.2%	372,500	49.7%
Undistributed Operating Expense										
Administration & general	446,200	10.9%	1,632,000	7.9%	366,000	9.1%	142,600	11.2%	63,900	8.5%
Marketing	193,300	4.7%	943,000	4.6%	152,600	3.8%	31,800	2.5%	11,200	1.5%
Energy	168,400	4.1%	525,600	2.6%	110,900	2.8%	39,500	3.1%	19,400	2.6%
Repair and maintenance	194,100	4.7%	778,800	3.8%	180,400	4.5%	45,400	3.6%	27,800	3.7%
Management fees	77,700	1.9%	413,500	2.0%	120,000	3.0%	35,900	2.8%	50,100	6.7%
Franchise fees	N/R		N/R		N/R		N/R		N/R	
TOTAL	1,079,700	26.4%	4,292,900	20.8%	929,900	23.2%	295,200	23.2%	172,400	23.0%
Operating Department Income	1,013,200	24.8%	5,530,300	26.9%	838,700	20.9%	191,700	15.0%	200,100	26.7%
Fixed Charges										
Insurance	45,400	1.1%	149,100	0.7%	22,400	0.6%	14,500	1.1%	12,100	1.6%
Property Taxes	102,500	2.5%	1,155,900	5.6%	149,900	3.7%	35,500	2.8%	18,400	2.5%
Land Lease	N/R		528,800	2.6%	N/R		N/R		N/R	
TOTAL	147,900	3.6%	1,833,800	8.9%	172,300	4.3%	50,000	3.9%	30,500	4.1%
Income Before Interest, Depreciation and Tax	865,300	21.2%	3,696,500	17.9%	666,400	16.6%	141,700	11.1%	169,600	22.6%
Interest	196,500	4.8%	309,400	1.5%	276,400	6.9%	96,100	7.5%	34,400	4.6%
Depreciation	188,400	4.6%	586,900	2.8%	204,900	5.1%	52,400	4.1%	28,500	3.8%
Income taxes	N/R		N/R		10,500	0.3%	6,400	0.5%	7,600	1.0%
TOTAL	384,900	9.4%	896,300	4.4%	491,800	12.2%	154,900	12.2%	70,500	9.4%
NET INCOME	480,400	11.7%	2,800,200	13.6%	174,600	4.3%	(13,200)	-1.0%	99,100	13.2%

Average rates are strongest in Vancouver and Whistler while the other areas of the province perform in the $45 to $60 range. Nechako and Northeast are unusually low with rates registering in the $30 to $40 range.

With the exception of Vancouver and Whistler, there is no clear relationship on the reliance on beverage income across the economic zones in the province. Vancouver and Whistler are primarily room business-type of markets and demonstrate this with their unusually low ratio of beverage revenue to total revenue.

The financial results of the economic zone analysis clearly show the strong performance of Vancouver and Whistler. There is no obvious trend among the other economic zones of the province.

3. Current results have improved since the recession

From Statistics Canada data for 180 hotels, we looked at the percentage of income before interest and depreciation compared to total revenues from 1981-86. The 1988 data was obtained from our own financial sample. Exhibit V-9 below shows the fall-off in the recession years and the recent improvement.

EXHIBIT V-9
Income before interest and depreciation as a percentage of total revenue

1981	18.0%
1982	13.8
1983	6.8
1984	7.8
1985	10.6
1986	16.7
1987	N/A
1988	17.5

4. British Columbia hotels' performance is lower than other hotels in Canada

Exhibit V-10 shows how British Columbia hotels compare across Canada. British Columbia hotels appear less profitable than other hotels in Canada.

EXHIBIT V-10
Comparison of profitability among provinces

British Columbia	Alberta	Atlantic Provinces	Ontario	Quebec
17.7%	20.1%	26.3%	22.4%	23.8%

Note: British Columbia figure is 1988 data derived from our financial survey. The other provinces were obtained from the Pannell Kerr Forster "Trends in the Hotel Industry" representing 1987 data. This sample is heavily skewed to better performing hotels.

5. Comment on Financial Results

The sample compiled in this study produced results in line with Statistics Canada sample. Although the sample represents a good cross section of the province's hotels, it does overstate the average performance of all British Columbia hotels for the following reasons:

- Several recently built or acquired larger full service hotels did not contribute. Although we did not obtain complete financial information for these properties, our investigations determined that these hotels significantly underperformed their competitors.
- A large number of the smaller and beverage oriented properties did not or could not contribute complete financial information. Once again, other sources determined that these hotels usually significantly underperformed their competitors included in the sample.

B. INVESTMENT RETURN

1. Returns on investment are low for hotels

On Exhibit V-11, we have taken the cash flows available for debt service and shown the total amount of loan amount that could be serviced with the available cash flow. The questionnaires provided poor quality data on balance sheet items. Therefore, a detailed return on investment analysis was not possible. The investment return is derived from the income statement results. These amounts have been divided by the number of rooms to determine a serviceable loan amount per room. An allowance of 3% of revenue has been deducted for ongoing capital replacement instead of a charge for depreciation. A 3% replacement reserve is considered minimal when compared to actual refurbishing estimates.

EXHIBIT V-11
Implied return on investment by type of property

	A	B	C	D	E
Number of rooms	127	443	137	44	26
Income before interest, depreciation and taxes	$ 865,300	$ 3,696,500	$ 666,400	$ 141,700	$ 169,900
Less replacement reserve	122,685	617,900	120,400	38,200	22,500
Income available for debt service and equity return	$ 742,615	$ 3,078,600	$ 546,000	$ 103,500	$ 147,400
Maximum serviceable loan amount at 14.5% (prime +1)	$ 5,128,400	$ 21,231,700	$ 3,765,500	$ 713,800	$ 1,016,600
Loan amount per room	$ 40,400	$ 47,900	$ 27,500	$ 16,200	$ 39,100
Range of replacement cost per room	$75,000-$110,000	$120,000-$150,000	$60,000-$90,000	$55,000-$70,000	N/A
Average total cost of replacement	$ 12,590,000	$ 59,805,000	$ 10,275,000	$ 3,563,500	
Percentage return on new hotel	5.9%	5.1%	5.3%	2.9%	

It should be noted that several luxury hotels recently built and several in the planning/construction stage will cost more than $150,000 per room. Results of this comparison show that the cash flow available for the servicing of debt is significantly below the replacement cost per room and current average transaction prices for hotels. This differential is greatest in the case of the C and D level hotels and the least in the case of the A hotels.

The low cash flow return relative to the average total investment is not unusual for hotels in North America. Developers and investors gamble on future real estate appreciation and are willing to accept a below normal return on equity in hotel properties. Most hotels are highly leveraged making them sensitive to changing interest rates. This is why, in the last recession, almost one-third of the hotels in British Columbia went into receivership.

At the present time, in both Whistler and Vancouver, there is an active real estate market where hotels are trading far above cash flow value. For those hoteliers selling out, significant profits can be made. However, excessive flipping of these properties makes it very difficult to finance from operations, ongoing capital replacements to maintain product quality.

The D properties, largely represented by the small community hotels, are in the poorest position to have funds available for renovation and replacement. This is also the group of hotels that experienced the largest number of receiverships since the last recession.

2. Hotels are planning to renovate

The improved results within the British Columbia hotel industry since the last recession has initiated a new wave of renovations. Many properties in British Columbia are experiencing strong enough results to stimulate renovations. From the results of our questionnaire, one-third of the hotels responding plan to renovate an average of 25 rooms in the next three-year period. An additional 10% of the respondents were planning major additions of rooms to their properties in the next three-year period. The only factor that would slow down or prevent these renovations from occurring would be higher interest rates. The current rise to a prime of 13-1/2% will probably slow down and prevent some of these renovation plans from occurring.

3. Hotels have difficulty in obtaining sources of capital

The banking community is reluctant at the present time to loan funds to hotels unless there is proven additional security. Exhibit V-11 clearly demonstrates why the bankers are reluctant to loan into the industry. The large number of receiverships that occurred during our last recession have added to the bankers' fears regarding the loaning of funds to the hotel industry. There are, however, good opportunities in select locations for low-risk loans to be placed by the bank.

Better cooperation and stronger information about the hospitality industry needs to be communicated to the banking community. Improved business plans and industry information, such as this study, need to be presented to the banking community to improve their understanding of the hospitality industry and potential opportunities.

4. Government subsidization of the hotel industry has not proven effective

In the past, government loan subsidy programs, such as the TIDSA program, have spurred renovation and construction of new properties. However, there are several negatives associated with this type of program including:

- Over-building of hotels relative to market demand.
- A general distortion in the delicate supply and demand equation for hotels.

There do not seem to be strong reasons for direct government support to the hotel industry. Government initiatives can help the hotel industry in a major way. This is discussed further in Section VI-A.

Historically, the most effective form of government support is where demand for hotels is created. For example, at Whistler the government supported the initial infrastructure costs so that development could occur. Another good example is in Alberta where the Drumheller Museum was constructed creating tourism demand. Thus, the most effective government support for the hotel industry comes from priming the demand pump and creating the infrastructure that generates commercial and tourism demands. When the demand exists, the private developers and financial markets will create a quality accommodation base.

If government support is deemed as necessary to create the high quality accommodation base, then one viable option is a government loan guarantee program. This type of program could be similar to the Seed Capital program initiated by the Ministry of Regional Development. This program is administered totally by the private sector banking community. Applicants for loans must meet all the standard criteria for a private loan and must be responsible for paying back that loan at normal commercial rates. The government then guarantees to the lending institution a percentage payback if the loan becomes in default. The advantage of this approach is that it reduces the hesitancy of the bankers to lend in the higher risk situation. This provides an easier source of capital for the company seeking a loan. This type of program could be considered for not only hotels but on a broader tourism basis.

C. OFFSHORE INVESTMENT

A major change in the British Columbia hotel industry is being created by offshore money or by holding companies in Canada that have been set up by new citizens to the country with significant capital resources. In the past five years, approximately $500 million in capital has come into British Columbia to acquire hotel properties. Some of the positive effects of foreign and offshore investment include:

- Providing a new source of capital to stimulate development.
- Stimulating renovations and producing new products for the consumer.
- Stimulating competition, forcing Canadian developers to respond to competitive pressures.
- Forcing up the average rate thus benefiting the overall industry.

There are negative aspects to foreign investment including:

- Hotels are being transacted more for real estate value than cash flow value thus creating higher cost bases which will be difficult to support as interest rates rise and when an economic slowdown occurs.
- There is a potential for domination of product channels by offshore companies eliminating the opportunity for Canadian companies.

To generalize about the motives of foreign investors is difficult because they vary depending upon the investors. Some of the offshore investors have a long-term investment perspective and a genuine interest in improving the product quality of the hotel base in British Columbia over a long time frame. Other foreign investors are trying to capitalize in the short run by participating in the active real estate market.

The Government of British Columbia should encourage potential foreign investors to develop new products such as destination resorts. Focusing on new product development will stimulate the hotel industry and offset the effect of short-term speculation in the active real estate market. The infusion of foreign capital should be directed as much as possible toward providing a positive benefit to the hotel industry in British Columbia.

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VI

IMPACT OF GOVERNMENT POLICIES

A. HOTELIERS ARE CONCERNED WITH RECENT CHANGES TO GOVERNMENT POLICY

The results of our interviews suggests the priority issue for most hoteliers is the total level of taxation on the industry. Following closely behind this issue is their concern over the new proposed national sales tax (goods and services tax). The third ranked very important issue for hoteliers is the recently levied 10% sales tax on draught beer. These three issues are of particular concern because hoteliers do not believe that they can recover the full effect of these costs, and there is a general belief that the hotel industry is subject to more than its share of the taxation burden. Please refer to Appendix C for a table summarizing results of the problems and issues survey.

The 11 o'clock closing was of major concern to a select number of properties but not to all hotels. Those that were concerned felt it was a major problem.

Most hoteliers, particularly outside of Vancouver, Victoria and Whistler, were concerned about the 2% room tax. They are willing to accept 2% additional tax for industry marketing if the basic room tax is reduced by 2%. A 10% room tax is felt to be too high for the price sensitive markets, especially, although not exclusively, in the outer areas of the province.

Many smaller hotels are concerned over the lack of availability of staff, especially trained chefs.

Most hoteliers see the need to renovate as a very important problem. This issue is largely caused by lack of adequate capital financing and a strong concern over high interest rates.

B. GOVERNMENT INITIATIVES HAVE HELPED DEVELOP THE HOTEL INDUSTRY

In the last 10-year period there have been several government projects and initiatives that have helped stimulate the development of hotel rooms in British Columbia. These examples are where government "primes the pump" for tourism and commercial demand.

Convention centres have received substantial dollars and effort in recent years. Government efforts have included the leasing and operating of the Vancouver Trade & Convention Centre, the expansion of the Penticton Convention Centre and the construction of the Whistler Conference Centre. The latest government undertaking has been the new Victoria Conference Centre that is already a success story. This new conference centre, that cost $23 million, was funded one-third by each of the federal, provincial and municipal governments. Bookings and activity levels in the new Victoria Conference Centre are exceeding expectations.

The provincial government has strongly supported the development of Whistler as an international resort. The government supported the initial development of the resort by enacting legislation to create the first resort municipality. The municipality in turn created the Whistler Village Land Company to direct the planning and development of the Whistler resort village. In January 1983 the provincial government stepped in to help the ailing Whistler Village Land Company and replaced it with the WLC Developments Ltd. assuming its liabilities and remaining land and building assets. WLC Developments Ltd. proceeded to reconstruct a partially completed recreation/meeting centre into a world-class convention/conference centre. The WLC continued the program to complete the development of the lands within the Whistler Village. This organization was later assumed by the B.C. Enterprise Corporation that is continuing to develop the Village and Village North lands. The provincial government has supported Whistler by providing infrastructure funding, Whistler Resort Association marketing support and operating funding for the conference centre and golf course.

Expo 86 was a major contributor to awareness of British Columbia in key tourism markets. Awareness of the City of Vancouver and British Columbia in key tourism markets such as California has dramatically increased due to the World's Fair held in Vancouver in 1986. The provincial government provided major financial support to organize the lands and fund the fair activities.

B.C. Place Stadium is another strong generator of demand for hotel rooms. The stadium now achieves approximately 200 event days per year of which two-thirds of these are utilized for consumer show activities. Depending on the type of show, large numbers of attendees and exhibitors from out-of-province will travel to Vancouver to attend these functions, thereby creating more room demand.

The major government initiatives that stimulated hotel room demand have been primarily restricted to Vancouver, Victoria and Whistler, with the exception of the Penticton Convention Centre. Other areas of the province require government initiatives to create tourism and commercial demands. No major commitments exist at the present time for the creation of major demand generators across the province that would help stabilize the hotel industry in other regions of the province and the tourism industry in general.

C. LIQUOR POLICIES -- HISTORICAL OVERVIEW

The hotel industry in British Columbia has been beverage-oriented because of the historical relationship between hotels, public drinking and government liquor policies.

1. Hotels historically have dominated all public drinking establishments

Government control of the sale of liquor was a by-product of British Columbia's brief exposure to prohibition during World War I. Prior to the war, old-style saloons were the predominant drinking places, not hotels. Intense debate existed at the time between the "drys" and "wets" over the sale of alcohol. Eventually, the drys linked their cause to wartime patriotism and successfully persuaded the male electorate to choose prohibition in 1917. Prohibition continued until late 1920 when John Oliver's Liberal government, in an attempt to forge a compromise between the wets and the drys, gave voters a choice between continued prohibition or liquor for sale in government liquor stores. The voters, who now included women, chose government control by a large majority. The first government liquor store was opened in Vancouver by the Liquor Control Board in 1921.

The hotel beer parlour system evolved from government's desire to moderate drinking behaviour given the prevailing temperance demands of the post-prohibition period. Five years after prohibition ended, the hotel owners and veterans organizations were finally able to convince the government to re-introduce the sale of beer by the glass. The first hotel beer parlours were licensed in 1926 under strict government control. To discourage the alleged sins of the old-time saloons, neither food nor entertainment was allowed, and single men and women were segregated. The price of beer was set by government and remained at 10 cents a glass until 1956.

The hotel beer parlour system remained virtually unchanged for 30 years. Alcohol consumption was a contentious social issue and governments found it safer and easier to maintain the status quo than tamper with changes in liquor policy. At the same time, the province became very dependent on liquor revenue, deriving 25% of net general revenue from liquor sales in 1947 (in 1987, it was under 5%).

The post-war affluence and lifestyle changes of the 1950s and 1960s led to public demands for new liquor laws. A public referendum in favour of cocktail lounges was passed in 1952, but W.A.C. Bennett's government largely confined these new lounges to hotels. The government's priority at the time was economic development into the outer regions of the province and the building of a vast highway and ferry transportation network. To meet the accommodation demands of business travellers and community needs in these areas, hotels would be needed. Liquor licences became a major incentive to invest in hotels. The promotion of tourism was not the focal point for hotel development at this time. However, the combination of better accommodation and new highways enhanced the tourism product.

The influence of liquor policy on hotel development is reflected in the size of the properties built. In the 1960s, for example, a general rule was that hotels should be around 50 rooms outside of Vancouver and 100 rooms in Vancouver and Victoria. The viability of a medium-sized hotel (30-60 rooms) in many areas became more dependent on the liquor licences and revenues it received than on room revenues. These smaller hotels have proven to be more vulnerable to market demand shifts and changes in alcohol policy than larger, more efficient properties.

Major liquor policy changes occurred after the election of a new government in 1972. Neighbourhood pubs and other outlets were licensed in 1974 to compete with the hotels. The government also drafted two liquor acts, one for revenue and the other for licensing and control, and eliminated many of the archaic rules that had governed beer parlour conduct for the past 50 years. Patrons could now stand and drink, and entertainment was allowed. Many hotel pubs promptly hired dancers to compete with the cabarets.

The market-driven changes and policies enacted in the 1970s and 1980s have steadily eroded the market dominance of hotels as public drinking establishments. Nevertheless, many hotels in British Columbia continue to focus on beverage operations. Exhibit VI-1 illustrates the dependence of British Columbia hotels on liquor revenues in 1988. On a province-wide basis, beverage revenues exceed room revenues by a ratio of 1.55:1 ($1.55 in alcohol revenue for every $1 in room revenue). However, on a contribution margin basis, room income exceeds beverage income by a ratio of 1.5:1. Thus, the British Columbia hotel industry on average receives $1.50 in income from room sales for every $1 in income from alcohol sales, indicating that room sales are generally more profitable than alcohol.

Exhibit VI-1 illustrates that the smaller hotels, from 15-75 rooms, plus the non-conforming, non-transient hotels dominate the beverage business and are more dependent than the larger properties and resorts on alcohol sales.

EXHIBIT VI-1
Ratio of beverage revenue to rooms revenue

A Resorts	B >250 Rooms	C 76-250 Rooms	D 15-75 Rooms	E Non-Transient Beverage
0.25	0.22	1.10	4.38	28.90

2. Per capita alcohol consumption continues to decline

Since 1982, per capita alcohol consumption has declined in British Columbia. Numerous social and market factors have reduced the demand for alcoholic beverages, including:

- Demographic changes.
- Drinking and driving laws.

- Lifestyle considerations.
- Price of alcohol.

a) Demographic changes

The age demographics of a region directly affect the type and quantity of liquor consumed. Two significant findings regarding the British Columbia demographic profile are:

- The key 20-24 year old group peaked in size in 1982, the same year that per capita alcohol consumption peaked. This coincides with a similar trend in the United States. Despite an overall population increase of 200,000 in British Columbia between 1982 and 1989, there are 35,000 fewer individuals in the 20-24 year old age group (that tend to have high alcohol consumption levels).
- Alcohol consumption generally declines with increasing age and tends to shift from drinking establishments to the home (e.g., an individual over 65 drinks an average 60% less than individuals in the 35-64-year old group -- Jobson Liquor Review).

b) Drinking and driving laws

Police enforcement of increasingly tough drinking and driving legislation, or the threat of such enforcement, has a profound effect on drinking behaviour. Particularly significant is the size and breadth of the drinking and driving advertising and awareness blitz. Television, radio, newspaper and magazine ads by government agencies, non-profit associations, and even distilleries and breweries reinforce the message daily. The key behaviour the legislation ad awareness may inspire is not only more moderate drinking, but drinking at home (no risk of drinking and driving) or drinking near home (within walking distance or "safe" driving distance).

c) Lifestyle considerations

Changing lifestyles and consumer preferences have contributed to the decline in per capita alcohol consumption and the shift away from drinking at licensed hotels. A significant lifestyle trend in the past 15 years has been increased participation in fitness activities. Consumers are much more likely to be a member of a recreation or fitness club today. The significant impact on British Columbia hotels is that people will tend to drink where they recreate, whether it is a bowling alley, tennis club, or golf course. Such market-driven preferences will be difficult to overcome without government intervention.

Low-alcohol and no-alcohol beverages have been introduced to meet the new demands of a more active and health-conscious public and the female drinker. Today's drinking customer also demands a different drinking environment. A major challenge for many licensed hotels will be to create an environment conducive to meet the current needs of both male and female clients.

d) Price of alcohol

Since 1981, alcoholic beverage prices have consistently increased faster than the consumer price index in British Columbia. Draught beer prices have increased 85% since 1981 whereas the consumer price index in British Columbia increased by 37%. The spread between the draught beer price index and the consumer price index has widened significantly in the past two years. From 1986 to 1988, overall consumer prices rose by less than 9% whereas draught beer prices rose 35%. Provincial and federal taxes and mark-ups are primarily responsible for the difference between alcohol beverage prices and the consumer price level. Exhibit VI-2 illustrates the percentage of the shelf price of each product class attributable to supplier cost, federal taxes and duty, and provincial taxes and LDB mark-ups, as of March 31, 1988. The province receives over 50% of the shelf price for spirits, imported wine and imported beer, and 39% for domestic beer and wine, which nets the government over $425 million a year. In addition, the 10% retail tax generates over $200 million a year.

EXHIBIT VI-2
Breakdown of taxes in liquor

	Shelf Price	% of Shelf Price for Supplier Cost	% of Shelf Price for Federal Taxes and Duty	% of Shelf Price for Provincial Taxes and LDB Mark-up
750-ml domestic wine	$4.55	44%	17%	39%
750-ml imported wine	6.45	32	11	57
750-ml domestic spirits	17.00	18	25	57
750-ml imported spirits	18.20	19	24	57
12 domestic beer	11.35	45	16	39
6 imported beer	7.75	38	12	50

3. In response to changing market demand, provincial liquor policy has been shifting to a more open system

Since the mid-1970s, the government has moved away from the closed system which protected hotels from competition to a more open system.

Exhibit VI-3 illustrates the growth in major types of liquor licences. Major growth has occurred in the number of B licences that are primarily restaurant seats. Also apparent is the growth in the number of \ pubs -- "D" licences. The overall growth in the number of licences has far exceeded population growth over the same time period. The growth in the standard hotel licences has been much slower. ("A" licences: - general hotel lounge and pub category and "C" licences: - Cabarets)

The hotels' dominance in off-sales has also been affected by the move towards privatization of liquor distribution. The first rural agency stores were licensed in 1975 in areas where population did not warrant government stores. The private stores sell a limited variety of liquor products at the same price as government stores. The introduction of Licensee Retail Stores (LRS) operated by neighbourhood pubs and hotels and the outlets operated by wineries and breweries have significantly increased access and convenience to alcohol. Exhibit VI-4 illustrates the growth in the number of liquor outlets in British Columbia. There are several advantages to a more open system:

- Consumer choice and convenience is enhanced.
- Competition may result in lower prices and more market driven service.
- Inefficient properties which are poorly maintained and operated will be forced to change or close.
- Greater number of suppliers results in less dependency on liquor service for financial viability.

Disadvantages of the open system include:

- Liquor policy infringement is more frequent with competition (e.g., sales to minors).
- Reduced profitability for licensees, particularly less competitive properties.
- Distribution costs increase.

EXHIBIT VI-3

LIQUOR LICENCE BREAKDOWN
1977-1987

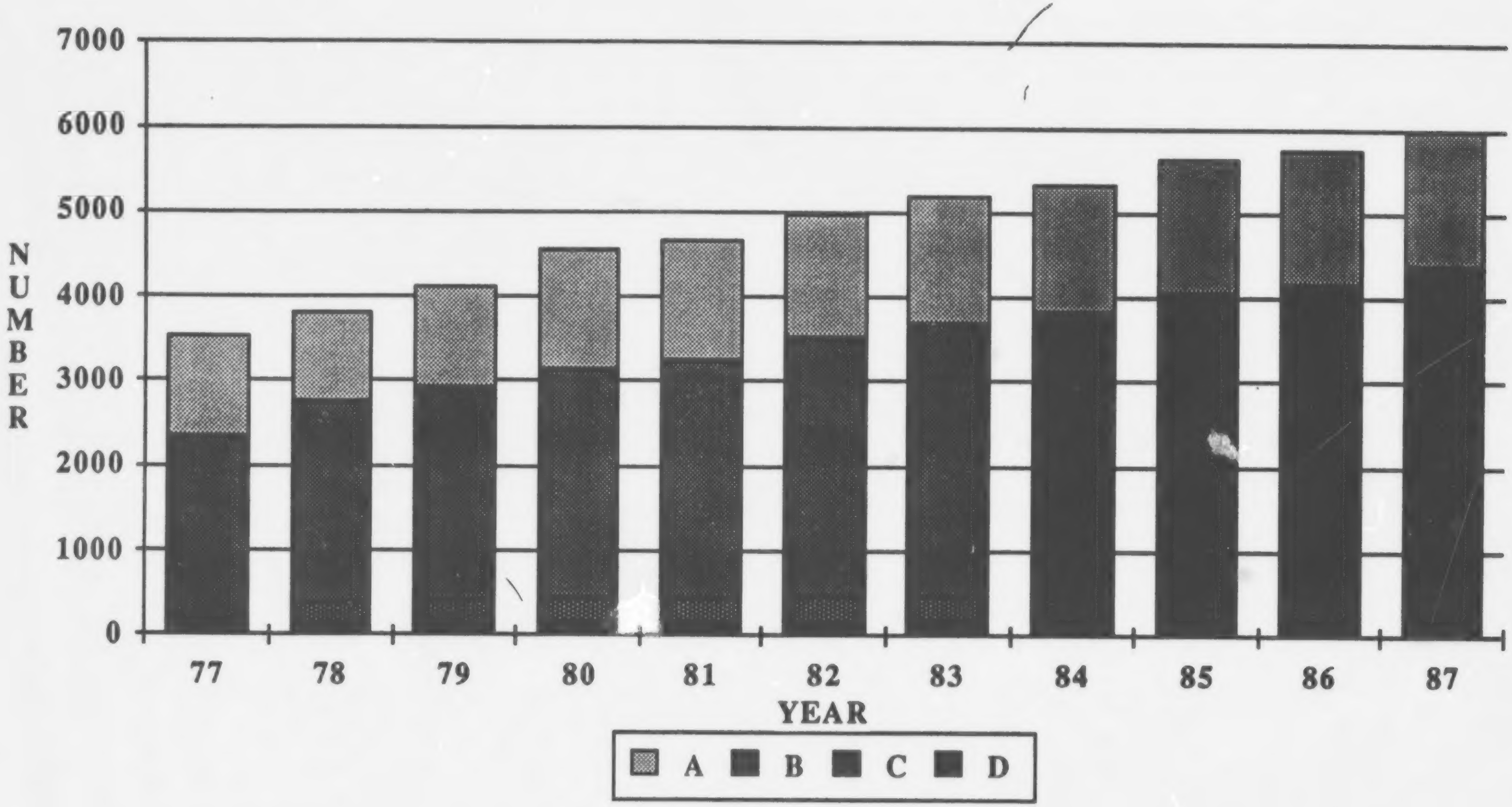
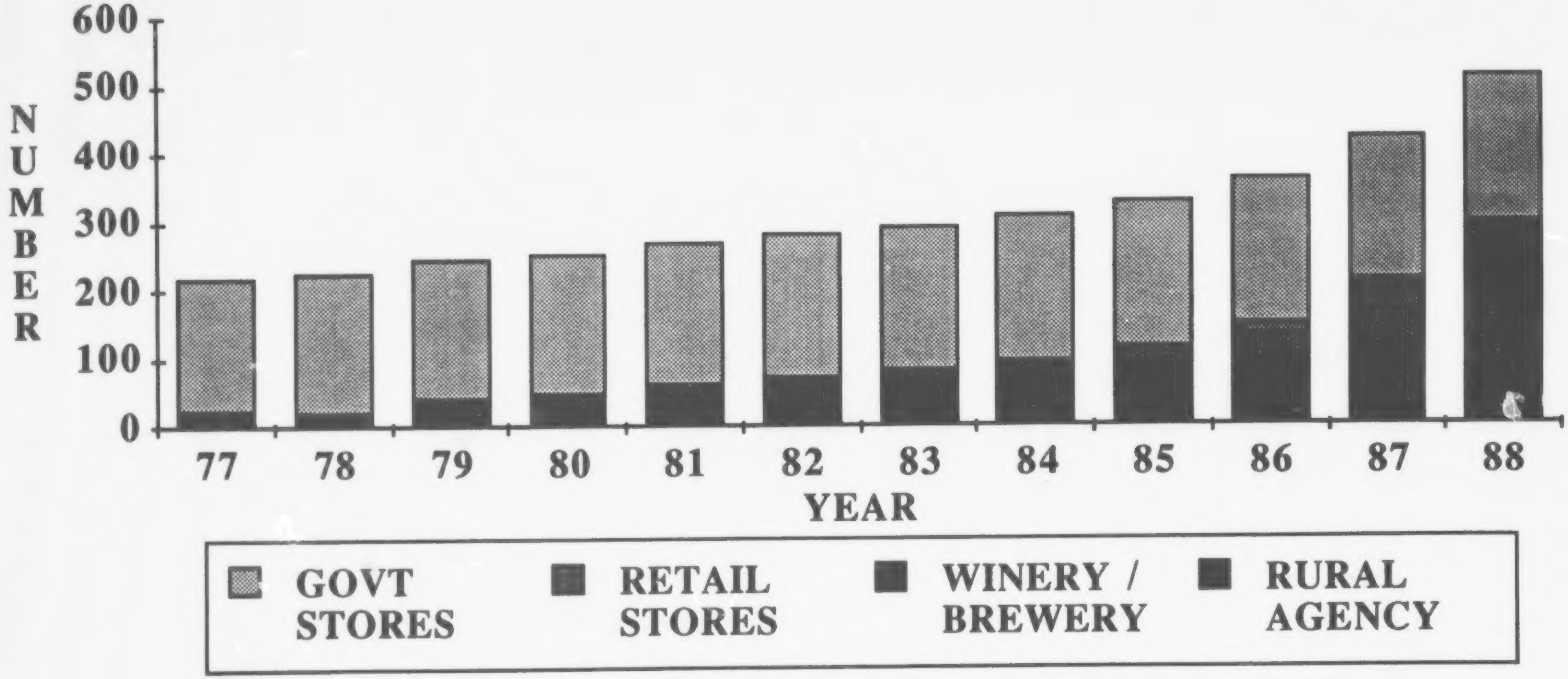


EXHIBIT VI-4

LIQUOR OUTLET BREAKDOWN
1978-1988



D. CURRENT HOTEL INDUSTRY LIQUOR ISSUES

1. Increased competition has decreased hotel beverage sales

The top-performing licensed hotels are experiencing declining sales while the top-performing neighbourhood pubs are increasing. Exhibit VI-5 compares beer volumes at the top 20 hotels and neighbourhood pubs in 1983 and 1988. It clearly shows hotels losing market volume in both kegs and bottled beer. The top-performing pubs, on the other hand, had a modest gain in draught sales and large increases in bottled beer sales.

EXHIBIT VI-5
Top 20 British Columbia hotels and neighbourhood pubs -- beer volume comparisons

		1983	1988*	% Change
Top 20 hotels -	kegs	75,999	68,691	-9.6%
	bottled	836,604	312,998	-62.5
Top 20 pubs -	kegs	35,163	36,512	3.8
	bottled	194,442	430,838	121.6

** Does not include LRS sales.*

2. The Licensee Retail Store concept has created an unprecedented opportunity for hotels

The Licensee Retail Store concept was introduced in 1985 as a government-sponsored move towards increasing privatization of the sale of alcohol. Hotels were slow to respond to the LRS initiative. Many hotel owners felt that a 15% price reduction from the LDB was required to cover operating costs. The neighbourhood pubs, on the other hand, quickly responded to the LRS opportunity. Currently, almost 25% of all neighbourhood pubs in British Columbia have an LRS licence compared with less than 9% of all hotels.

LRS's now sell 25% of all packaged beer in British Columbia. Exhibit VI-6 documents the growth in the number of LRS's in the past three years and sales by type of outlet. There are currently 125 LRS's operating in British Columbia; 64 by neighbourhood and marine pubs and 61 by hotels. Neighbourhood and marine pubs annually generate over $60 million, or about $949,000 per store. Hotels take in nearly the same amount, but with fewer outlets, average over $977,000 per store. Total sales for all LRS's is expected to exceed $120 million tor the 1989 LDB year-end (March 31, 1989). This represents an increase of $35 million , or 42%, over 1988 sales.

EXHIBIT VI-6
Analysis of LRS sales

LRS sales by type of outlet	As of March 31, 1987	As of March 31, 1988	Estimated * March 31, 1989
Hotels:			
Hotel sales	$11,752,000	$40,581,000	$59,649,000
Number of stores	26	45	61
Average sales per store	452,000	901,800	977,800
Neighbourhood and marine pubs:			
Sales	14,673,000	43,916,000	66,731,000
Number of stores	33	53	64
Average sales per store	444,600	828,600	1,042,700
Total number of stores	59	98	125
Total sales	$26,425,000	$84,497,000	$126,380,000
Average sales per store	448,000	862,000	1,011,000

* *Estimates based on total and outlet sales as of December 31, 1988 and projected three-month sales (January to March 1989).*

Existing LRS's are financially successful. Given open market pricing and moderate protection from competition, the 10% LDB discount is adequate to assure good financial returns. An average LRS will earn a net income before fixed charges of more than $150,000 and top performers exceed $350,000 per year.

Current LRS eligibility criteria favours full-service hotels which conform to LCLB standards. However, the LCLB has also established new location guidelines regarding proximity to existing outlets, community need and potential impact on the surrounding area. Several LRS applications from qualified full-service hotels have been rejected based on this new criteria.

To eliminate the unfairness in the LRS system, all conforming hotels should be eligible for LRS's. This will allow an open competitive environment, although the profitability of individual stores will decline once the number of outlets in an area reaches the saturation level.

3. Fraternals have a significant share of the beverage market

Our analysis of the Lower Mainland fraternal and hotel draught beer volumes indicate fraternal organizations sell approximately one-fifth of the draught beer volumes compared to the hotels' volumes. Fraternal organizations are attractive places to drink compared to hotels because of the low retail prices of drinks. Fraternal organizations usually enjoy lower costs due to some volunteer contributions, property tax advantages, and less costly facilities.

Originally, the Legions were set up as support organizations for the veterans of the two World Wars. The active memberships of these groups of people has been dwindling in recent years due to aging. Through active membership campaigns and open privileges for guests, fraternal organizations and legions have become a popular alternative to a hotel pub or lounge in many communities.

The number of fraternal organizations has not increased significantly over the last five years as shown in the licensing data. The volume of beverage alcohol sold in the top fraternal organizations compared to the top 20 hotel organizations shows fraternals have lost beverage volumes but not to the same extent as hotel licensed facilities. We looked at a level of draught beer kegs sold in 1983 for the top 20 fraternal organizations in comparison to the top 20 hotels for the period 1983-88. Fraternal organizations lost 7.4% of their draught beer volume compared to the hotels which lost 9.6% in their draught beer volume. Fraternal organizations over the same time period lost 30.6% of their packaged sales compared to the drop of 62.5% of the hotels.

Fraternal organizations can impact the volume of beverage sales in hotels. The government needs to ensure that fraternal organizations respect membership rules and adhere to licensing regulations to ensure their privileges are not abused.

4. Public special occasion licences provide both costs and benefits to the hotel industry

Public special occasion licences have averaged approximately 1,950-2,000 licences per year over the last five years. Public special occasion licences are generally regarded as good for communities as they can be useful fund-raising activities. These events are generally community motivated and supported by the majority of the residents.

Special occasion licences can have a negative impact on certain beverage hotels in the province at certain times in the year. The overall impact of special occasion licences is relatively small if you compare the total volume sold at these events with the total volume sold in hotels. Furthermore, special occasion licences can have a positive impact on the room business of hotels where the event is large enough to attract visitors for overnight stays.

The price differential between drinks sold at special occasion licences and those sold at licensed hotels is a cause of concern. However, effective May 1, 1989, all special occasion licences will be required to pay up front at the time of liquor purchase a tax equal to the 10% tax at retail. Also, consideration could be given to opening up the margins on public special occasion licences to provide equity in their pricing structure between hotels and public functions.

5. The 11:00 P.M. off-sales closure hurt selected hotels

Effective January 31, 1988, a regulation change to the Liquor Control and Licensing Act restricted all off-sales to terminate at 11:00 P.M. This closure was a recommendation in the Liquor Policy Review Report based on late night problems being experienced in Victoria.

Overall, R.C.M.P. and the municipalities favour the early closure. It also provides for a uniform closing hour for late night government liquor stores and Licensee Retail Stores. The closure has had a negative impact on selected hotels, particularly in the outer regions of the province and rural areas. The hotels most severely impacted are the beverage-oriented "draught" houses which previously did a large volume in off-sales. Several of the hotels interviewed indicated that prior to the closure, revenues from off-sales represented 10%-20% of total revenues.

Up to 50% of all off-sales formerly occurred between 11:00 P.M. and closing, although this percentage varies significantly by property and location. The 11:00 P.M. closure has therefore eliminated the majority of off-sales purchases for many hotels. The effect of the closure has been to reduce late-night sales and "impulse" purchases from licensed premises and shift the demand to bootleggers who sell a case of beer for up to $25. The tax loss from the transfer is not significant but the impact on selected hotels is substantial.

The impact of the 11:00 P.M. off-sales closure on selected hotels reinforces the need for more industry consultation. In this case, all licensees were punished because one licensee was causing problems in Victoria. Consultation with the industry may have provided other solutions. Also, the province-wide closure ignores market reasons for different closing times. In some areas of the province for example, shift workers comprise a large share of the drinking market. The Liquor Control and Licensing Branch should recognize these regional differences when enacting blanket legislation.

Given the perceived benefits of the closure to municipal and enforcement agencies, the liquor control authorities will likely choose to maintain the current off-sale closing time. However, hotels which have been able to get an LRS licence have reported higher sales and better income returns from the LRS than previous off-sales. Therefore, conforming hotels which have suffered from the off-sales closure should apply for and receive a license to operate a beer and wine store. This will enable most licensees affected by the closure to recapture lost income.

6. The 10% retail tax on alcohol has a significant impact on the beverage-oriented hotels in price-sensitive areas of the province

The 10% sales tax addition on draught beer and the increase to 10% on other alcohol on April 1, 1988, generated a net increase of $80 million in tax revenue. For the first time ever, the province collected more tax from licensees than its own liquor store sales, even though licensee purchases represent less than 28% of total LDB sales. This results from the leveraging effect of sales taxes. In the 1988-89 fiscal year, the 10% tax is expected to yield approximately $200 million -- 55% from licensees and 45% from LDB sales.

Our survey of 88 hotel pubs and lounges indicates that, on a province-wide basis, the cost of sales for draught beer as a percentage of selling price has not changed significantly in the past two years. In fact, Exhibit VI-7 illustrates that the cost of sales and margins per glass for draught beer have been relatively constant in the past 10 years. However, Exhibit VI-8 indicates that before the 10% tax there was little regional variance in the price of a glass of draught beer. Average prices varied from $1.25 per glass to $1.38 per glass in 1987 prior to the 10% tax. After the tax was applied, the average price varied from $1.42 to $1.75. Obviously, some regions were better able to pass on the tax increase than others or price was maintained despite its effect on volumes.

EXHIBIT VI-7
Draught beer summary (1977-88)

Year	P.B.D. Total price/keg to Licensee[1]	Cost Per 9-ounce Glass	Average Price of Glass of Beer	Cost of Sales
1977	$33.16	$0.15	$0.45	33.1%
1978	39.20	0.18	0.50	35.2
1979	44.18	0.20	0.55	36.2
1980	49.05	0.22	0.60	36.8
1981	62.91	0.28	0.80	35.0
1982	75.01	0.34	0.95	35.8
1983	80.85	0.36	1.00	36.0
1984	82.95	0.37	1.00	37.0
1985	92.28	0.42	1.15	36.5
1986	92.08	0.42	1.20	35.0
1987	97.44	0.44	1.30	33.8
1988[2]	96.65	0.44	1.48[3]	32.8

[1] *Includes 5% licensee tax through 1987.*

[2] *On April 1, 1988, the 5% licensee tax was removed and replaced with a 10% retail tax on draught. Thus, despite a 4% increase in product cost, the removal of the 5% licensee tax reduced total product cost slightly.*

[3] *The $1.48 price per glass actually represents a net price of $1.34 given the 10% tax. Cost of sales was thus calculated on the $1.34 price per glass.*

EXHIBIT VI-8
Impact of 10% tax on average draught beer prices by economic region (9-ounce glass)

	June 1987	February 1989
All regions	$1.30	$1.48
Greater Victoria (1A)	1.26	1.49
Vancouver Island (1B)	1.29	1.51
Greater Vancouver (2A)	1.38	1.42
Whistler (2B)	1.32	1.75
Southwest British Columbia (2C)	1.25	1.47
Thompson/Okanagan (3)	1.27	1.49
Kootenay (4)	1.26	1.43
Cariboo (5)	1.31	1.42
North Coast (6)	1.38	1.44
Nechako (7)	1.34	1.45
Northeast (8)	1.30	1.64

Draught beer volume at hotel pubs and lounges has dropped by 3% in the year since the introduction of the tax. Exhibit VI-9 illustrates that hotels are losing market share relative to other licensed premises.

The most significant effect of the 10% tax is that it created a large price increase for draught beer which altered its price-value relationship relative to alternative beverages. The price differential between draught beer and other beverages has narrowed and some consumers have switched to bottled beer, mixed drinks, no-alcohol drinks, or simply drink less draught beer. The 10% tax also increased the differential between draught beer prices in British Columbia and surrounding states and provinces. The cost of draught beer is 175% more expensive in British Columbia than in Washington, and 10% more than Alberta. Exhibit VI-10 illustrates comparative draught beer costs to licensees. A final factor is that many licensees have been forced by the higher prices to provide more or, in some cases, more expensive or better entertainment to moderate the effects of the price increase. This is one way of giving the consumer "more" for their money. At the same time, the entertainment is expensive and high costs can reduce profitability.

EXHIBIT VI-9

B.C. DRAUGHT BEER
MARKET SHARE
BY TYPE OF OUTLET

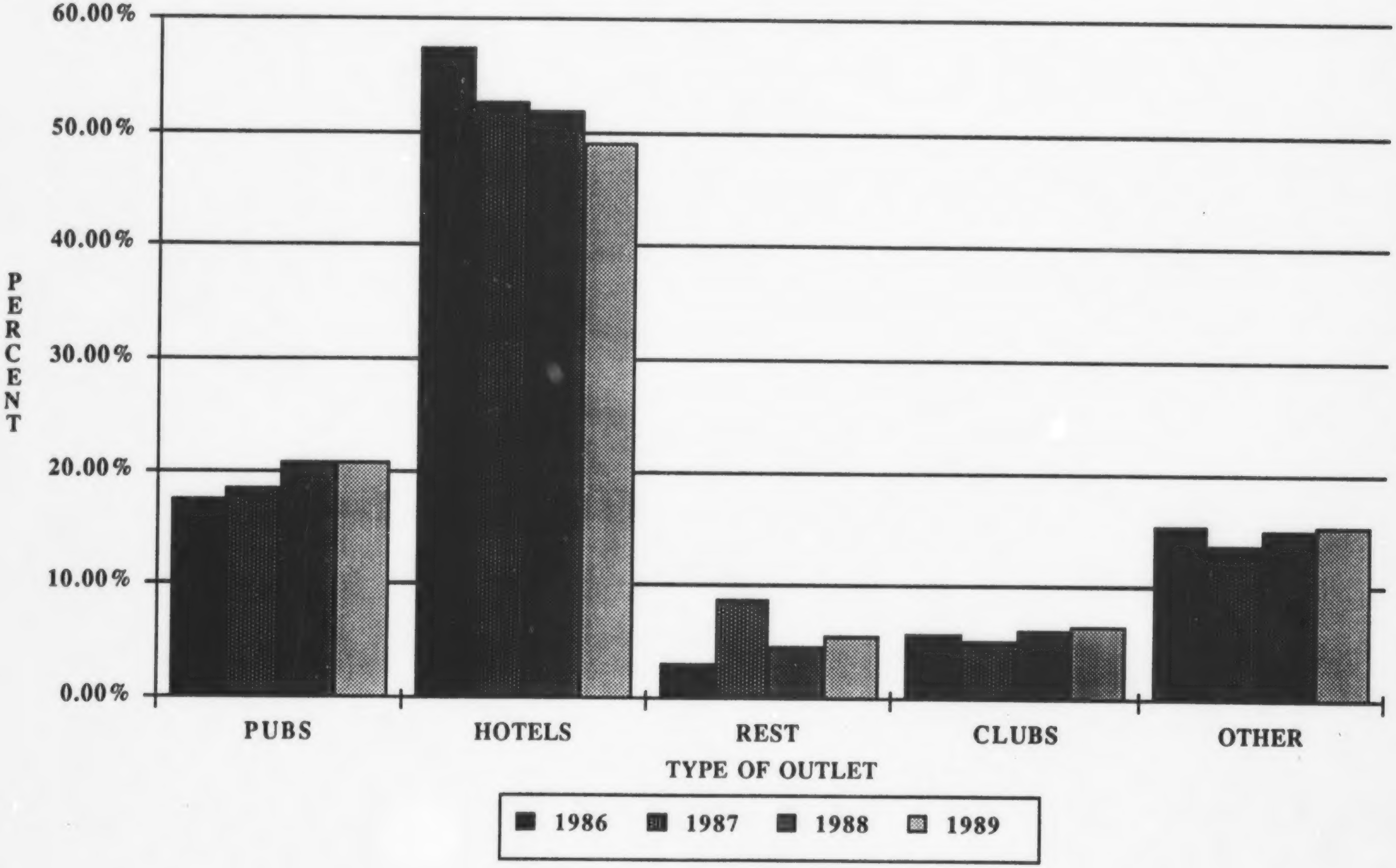


EXHIBIT VI-10
Survey of regular draught beer prices to licensees (1988)

	Key Size Litres	Price per Litre	Sales Tax	Cost Per 9-ounce Glass Before Tax	Approximate Retail Price with Standard Mark-up and Taxes
Washington (Budweiser, Miller)	58.67	$0.61 U.S.	8.7%	$0.16 U.S.	$0.60 U.S.
Oregon (Henry Weinhard)	58.67	0.86 U.S.	0	0.23 U.S.	0.75 U.S.
Alberta	58.67	1.50	0	0.40	1.30
British Columbia	58.67	1.65	10	0.44	1.60
Ontario	56.75	1.76	12	0.46	1.70

**Assumes uniform cost-of-sales of 30% before taxes for each region.*

Another significant issue with the 10% sales tax is that it applies to the cost of mixes, juices, soft drinks, ice, labour, premises, and entertainment, as reflected in the table price of a drink in licensed premises.

As the cost of drinking at licensed premises rises relative to home consumption, consumers will tend to move away from on-premise consumption to home consumption. One implication of such a shift is the net loss in employment hours as on-premise service is more labour-intensive than over-the-counter sales. Also, whereas consumption of beverage alcohol at a licensed premise occurs under the licensees monitoring and control, the purchase and consumption of alcohol for home use is largely unregulated.

Because of the leveraging effect of a retail sales tax, reduction in the sales tax from 10% to 6% on all alcohol sales would require a large increase at the LDB store price level to maintain equivalent tax revenues. The net effect would be to raise the price of alcohol for home consumption relative to on-premise consumption, but would likely face considerable consumer resistance.

One option for a solution to the 10% tax issue would be to offer a wholesale price to licensees. A consistent discount of 10% would assist licensees by reducing the cost of purchasing alcohol. A 10% discount to licensees would cost approximately $34 million per year. The rationale for a wholesale discount is that such practices are established in other areas of North America. Furthermore, some costs are saved by licensees handling the product as opposed to product sold at government liquor stores. The 10% wholesale discount would benefit each licensee as the savings directly improve profit margins.

7. Non-conforming hotels should not be given additional privileges

The Liquor Control and Licensing Branch has recently prepared a discussion paper on non-conforming hotels. The issue of non-conforming hotels was raised in the 1987 Liquor Policy Review which indicated that up to 30% of the province's licensed hotels either did not rent rooms or operated as rooming houses.

Non-conforming hotels can [illegible] defined as those properties which satisfy one or more of the following criteria:

- Do not rent rooms to the traveling public.
- Do not operate restaurant facilities.
- Do not offer banquet facilities.
- Do not allocate at least 50% of total public floor space for non-licensed use.
- Do not comply with maximum seat capacities.

Two hundred and sixty-five hotels in British Columbia have been identified as non-conforming. Sixty "hotels" provide no services other than a licensed lounge or pub. An additional 105 hotels provide restaurant facilities or operate as rooming houses. These 165 hotels are strictly beverage-oriented operations. Most of the 100 other non-conforming hotels are beverage-oriented, although some are room-oriented.

The following conclusions can be made regarding non-conforming hotels:

- The 60 non-conforming hotels that operate only as a licensed pub or lounge (provide no room rentals) should be licensed and classified as free-standing pubs not dependent on criteria based on hotel facilities.
- The remaining 105 non-conforming hotels should not be penalized, but also should not be given additional privileges that may be accorded full-service conforming hotels in the future.
- Government should enforce existing liquor licensing and health, fire and safety regulations for non-conforming hotels.

- A portion of non-conforming hotels will disappear over time with rising real estate values and declining markets for alcoholic beverages.

8. A better process to deal with liquor issues is needed

In the past there has been significant confrontation between government and industry over liquor issues. Changes in liquor policy can have a significant impact on the profitability of hotels. When measures are implemented without consultation with industry, these surprises are not welcomed by the industry. Industry, on the other hand, has not always provided the government with the best information on the status of their situation. The net result is that we need a better process to deal with the issues that impact the industry.

Formal hearings should take place at least twice a year between industry and government on the subject of liquor policy. These meetings could include not only hotels but neighbourhood pubs, restaurants and other licensed holders. These sessions should be structured and written papers presented by both sides on the subject of liquor licensing regulation.

The hotel industry is a collection of small businessmen and entrepreneurs that lack the resources to properly present their cases individually. This is why the Hotel Association is a vital link in representing the perspective of the individual hotel owner. An effective relationship between the government and the Hotel Association is essential to resolve conflicts over liquor issues.

E. THE HOTEL ROOM TAX

In British Columbia a tax of 8% is levied on all accommodation room revenue. The history of the application of this tax is shown in the following Exhibit V-9.

EXHIBIT VI-11
History of hotel tax in British Columbia

Prior to March, 1981		5%
March 1981 - February 1984	Room rate < $50	6
	Room rate > $50	8
March 1984 - March 1987		7
March 1987 - to date		8

EXHIBIT VI-12
Comparative provincial tax rates (March 1, 1989)

	Room Tax	General Sales Tax	Liquor Sales Tax
British Columbia	8%	6%	10%
Alberta	5	0	0
Saskatchewan	7	7	10
Manitoba	7	7	12 [1]
Ontario	5	5	12 [2]
Prince Edward Island	10	10	37
Newfoundland	12	12	12
Quebec	0	9	9 [2]
Nova Scotia	10	10	10
New Brunswick	11	11	11

[1] *7% on beer.*

[2] *Liquor served in commercial establishments is taxed at 10%.*

In British Columbia the basic hotel tax of 8% is supplemented by an additional tax of 2% that is levied in municipalities that have opted for this tax. Revenues from the 2% tax flow back to the municipalities and not to the Province of British Columbia. By comparison to British Columbia's main markets, British Columbia has a higher room tax. Alberta and Ontario are 5% while Washington and California are both 6.5%, not including city and county assessments.

1. The basic hotel tax

The 8% basic hotel tax has generated revenues for the province as shown in Exhibit VI-13.

EXHIBIT VI-13
Hotel room tax revenues

	Tax (millions)	Room Revenue (millions)
1988/89 (est.)	$42.0	$525
1987/88	39.0	488
1986/87	41.4	591
1985/86	27.6	394
1984/85	25.1	359
1983/84	23.2	331
1982/83	22.5	321
1981/82	22.2	315
1980/81	15.4	308

The question arises as to why the basic hotel tax is higher than the sales tax. There appears to be no special reason other than it provides an extra source of tax revenue for the government.

The results of our questionnaire show that 50% of hotel room business comes from British Columbia residents. This suggests that a large portion of the hotel room tax is paid by British Columbia residents. This goes against the argument that the hotel room tax taxes only outside visitors.

The total room tax will increase in most areas of the province in future years. This will be caused by the additional 2% add-on tax voted for in many municipalities and because of the potential of the national sales tax being imposed by the federal government. A total room tax bill of between 16%-18% could be possible within a few years. The net effect of this will make the British Columbia hotel product less competitive in the prime American market. In addition, this will encourage British Columbia residents now vacationing in British Columbia to travel outside of the province to the United States and other destinations.

The government should consider reducing the basic hotel tax from 8% to 6% and re-establish an equitable sales tax on hotel rooms. At the present time hotels represent approximately 85% of total room tax revenues generated. With a 3.7% historical growth rate in rooms and the 8.5% historical growth rate in the average rate per room, future room revenues should grow at a rate of approximately 12-1/2% . This suggests that even with the reduction in the basic hotel room tax from 8% to 6%, the government would receive its present level of tax revenue by the third year of implementing a tax reduction scheme. A separate report proposal by Gladstone Associates of Washington D.C. for Canada Harbour Place Corporation in 1985 came to a similar conclusion. The Gladstone analysis estimated extra provincial taxes from incremental convention business would exceed loss in revenue to the provincial government represented by allocation of the 2% total tax to Greater Vancouver.

In summary, the advantage of a reduction in the basic hotel tax includes:

- Elimination of the inequity between the sales tax and the hotel room tax.
- The growth in room revenues will allow a recovery back to present room tax levels to the government in three years.
- This will allow British Columbia to remain competitive in the North American market and also prevent leakage of British Columbia resident business.

2. The 2% tax

In March 1987 revision of the Hotel Room Tax Act allowed, upon request, municipality or regional districts to levy an additional 2% hotel room tax. These funds are then to be allocated for either marketing or product development within the municipality.

The 2% tax provides a mechanism to fund collective marketing efforts within a region. This has been used very effectively to provide Tourism Vancouver (the Greater Vancouver hospitality industry's marketing and convention bureau organization) with a competitive amount of marketing funding on a continuous basis. The 2% tax also allows potential to support large public infrastructure improvements such as convention centres. The 2% alternative eliminates the necessity for government support and provides a permanent funding vehicle for regional tourism development.

Vancouver, Whistler and Victoria have recognized the benefit of this additional tax and have proceeded with the implementation. Other municipalities in British Columbia are considering this tax. Interestingly, the implementation of this tax has largely been brought about at the request of the private sector operators. Industry operators in Vancouver and Victoria have requested this tax in order to provide adequate funding for their tourism and convention marketing organizations. Two advantages have been created by this model:

- It places the marketing of the local or regional industry squarely in the hands of the people who deliver the service to the customer.
- It effectively allows the industry to reap the benefits or failures of their own marketing efforts. In a sense, this format provides a form of privatization so that government is not responsible for funding ongoing increasing funding requests.

One negative aspect of the 2% tax is that it only applies to the hotels and not to other businesses engaged in tourism activities. There may not be a viable alternative to imposing tax just on the accommodation sector, but this additional tax burden on this sector should be recognized.

The other negative aspect of the 2% tax is that it raises the general tax imposed on hotels and increases the price sensitivity of the cost of accommodation. This problem would be eliminated if the basic hotel tax was reduced from its current 8% to the proposed 6% level. The consumer would not see a change in the level of taxation and the total tax would remain reasonable relative to other competitive areas.

The 2% retail sales tax has sparked controversy at local levels due to the various interest groups involved. One aspect of the 2% tax is that the municipalities have some discretion in terms of diverting the funds between marketing and product development. Potential exists within this structure for abuse. One municipality was considering using the funds for the development of a community swimming pool. The difficulty is the funds are not being ear-marked for development that will benefit the hotels.

The major problem associated with the 2% tax is the dilution effect of awarding many municipalities in British Columbia with this tax. The amount of 2% tax available for a small town in the northern sections of the province is minimal.

A portion of the tax by the province and redistribution of this tax to the regional tourism association outside of major metropolitan or clearly defined destination areas could improve the distribution problems. Vancouver, Whistler and Victoria could retain their present agreement as they are distinct tourist centres. **In all cases, for the tax to be effectively used, industry organizations and commitment needs to be in place.**

In summary, the 2% hotel tax should have a positive benefit on the hotel industry. However, the total load of taxation must be considered and flexibility in the method of distribution is necessary to maximize the impact on hotels in the outer areas of the province.

F. TOTAL TAXATION AVERAGES 12% OF TOTAL REVENUES

Taxes were grouped into fixed taxes (property tax and business licences) and variable or volume-sensitive taxes. The volume-sensitive taxes included the 8% hotel room tax, 10% liquor sales tax, payroll taxes and income taxes.

Property taxes were the dominant fixed tax for all hotel property groups. Property taxes are highest for the large, urban hotels, where they represent 5.7% of total revenues and 43% of the total tax load. Business licences are not a significant expense as a percentage of total revenue for any hotel group, despite large increases in 1988 in some communities. As Exhibit VI-14 indicates, fixed taxes as a percentage of total expense are highest for the largest hotels and declines for each successively smaller hotel group.

EXHIBIT VI-14
Fixed taxes by hotel group

	% of Total Revenue					% of Total Tax Load				
	A	B	C	D	E	A	B	C	D	E
Property tax	2.9%	5.7%	3.9%	3.1%	1.8%	30%	43%	30%	26%	13%
Business licences	*	*	0.2	0.4	0.3	*	*	2	3	2
Total Fixed	2.9%	5.7%	4.1%	3.5%	2.1%	30%	43%	32%	29%	15%

* *Less than .1%*

The variable or volume-sensitive taxes and income taxes are shown in Exhibit VI-15. The 8% room tax, 10% liquor tax, and wage taxes are all significant, but there is a wide variance in their importance among the property groupings. The liquor tax is the most significant tax for the beverage-oriented "E" group. The liquor tax represents 9.5% of total revenues and 66% of the total tax load. The liquor tax is also significant for the "D" group, the small, community hotel where the liquor tax represents 29% of the total tax load.

EXHIBIT VI-15
Variable (volume sensitive) taxes and income tax by hotel group

	% of Total Revenue					% of Total Tax Load				
	A	B	C	D	E	A	B	C	D	E
8% Room tax	4.0%	4.5%	3.5%	1.6%	0.2%	42%	34%	27%	13%	1%
10% Liquor tax	0.7	0.5	2.4	3.5	9.5	7	4	18	29	66
Wage taxes	2.0	2.5	3.1	3.2	1.6	21	19	24	27	11
Income taxes	*	*	0.1	0.6	1.3	*	*	1	5	9
	6.7%	7.5%	9.1%	8.9%	12.6%	70%	57%	70%	74%	87%

The room tax is the most significant variable tax for the larger and mid-sized hotels, and resorts (groups A, B and C). As Exhibit VI-15 indicates, the room tax collected as a percent of total revenue and the total tax load declines with the size of the property (number of rooms).

Wage taxes do not vary significantly among A, B, C and D hotel groups. The beverage-oriented hotels, however, pay significantly less as a percentage of total revenue and total tax load.

Income taxes are insignificant for virtually all property groups, with the beverage-oriented "E" properties paying the most income tax, about 1.3% of total revenues. This conclusion is supported by the Statistics Canada income tax database. The main reason for the minimal income taxes is the low financial returns for hotels.

Exhibit VI-16 summarizes the total tax load for each group. The "E" group has the highest total tax load with 14.4% of total revenues redistributed through various tax channels. There is a significant trend between fixed and volume-sensitive taxes among the hotel groups. As properties become smaller, the volume-sensitive taxes become more significant. For example, 57% of the total tax load for large, urban hotels goes to variable or volume-sensitive taxes, whereas 87% of the "E" group's tax load goes to volume-sensitive taxes. Overall, the variance in the total tax load among hotel groups before income tax ranges from 9.6%-13.2% and 9.6%-14.4% after income taxes.

EXHIBIT VI-16
Total tax load by hotel group

	% of Total Revenue					% of Total Tax Load				
	A	B	C	D	E	A	B	C	D	E
Total fixed	2.9%	5.7%	3.9%	3.1%	1.8%	30%	43%	30%	26%	13%
Total variable	6.7	7.5	9.1	8.9	12.6	70	57	70	74	87
	9.6%	13.2%	13.0%	12.0%	14.4%	100%	100%	100%	100%	100%

G. TENANTS' RIGHTS FOR MONTHLY ACCOMMODATION

The government at the present time is considering legislation that would provide normal tenants' rights for people who pay monthly accommodation in hotels. The more important implications include:

- The landlord would have to complete a termination notice stating a reason as to why the tenant is evicted.

- Tenants could apply for repairs and maintenance to their suites.
- Rent could not be changed without a three-month notice. Increases in rent would only be allowed once a year.

The above changes would only affect hotels that are basically in the rooming house business. There are some motels that on a seasonal basis have both monthly accommodation and transient accommodation. The rules for these changes are anticipated to take into account these seasonal problems.

The new rules for these types of hotel properties place an added burden on the day-to-day operations of this style of property. However, there does not appear to be any major financial impact on the operations of these properties. The purpose of the legislation is to provide protection for the rights of the tenants.

The various interest groups that will be impacted by this legislation will have the opportunity to review the important aspects of the proposal when it is presented to the House in the next session. This legislation is not anticipated to impact in any material way the normal transient hotel accommodation business in British Columbia.

H. THE NATIONAL SALES TAX WILL HURT HOTELS

The national sales tax (or goods and services tax) expected in 1991 could have a major negative impact on hotels. The proposed new federal national sales tax will add a significant new level of taxation on the hotel industry. The additional federal sales tax is estimated to be approximately 8% on all goods and services. Because there are few federal sales taxes currently embedded in the expenses of our hotels, this new tax represents a major add-on to the level of taxation in hotels.

Foreign visitors from the United States and other destinations will see an increase in the cost of staying in hotels. Proposals have been made at the federal level for a tax credit system to allow foreign visitors an exemption from these taxes. These proposals may not proceed because they are very difficult to practically implement.

Potentially, a greater negative impact is that British Columbia residents will travel more to American destinations and other foreign destinations. Increase in travel to the United States should be an immediate effect of this new tax.

The national sales tax provides a positive inducement to new construction. Sales tax paid on the cost of construction will be applied as tax credits against potential future taxes on consumers to the hotel. The negative aspect of this proposal may be to delay future hotel construction for two years until the national sales tax system is put into place.

The hotel industry needs to keep abreast of the latest developments of the national sales tax proposals and make submissions to help government understand the impact of a national sales tax on the hotel industry in Canada. The British Columbia hotel industry needs to work with the hotel industry of Canada in tracking these new developments.

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VII

ECONOMIC IMPACT OF THE INDUSTRY

A. THE HOTEL INDUSTRY IS A LARGE ECONOMIC UNIT

The total base revenues of all the hotels in British Columbia has been estimated to be $1.64 billion. Total wages has been estimated at $493 million for the 28,000 employees employed in the industry. A detailed analysis by type of hotel is shown on Exhibit VII-1.

EXHIBIT VII-1
Direct economic impacts of the British Columbia hotel industry

	A	B	C	D	E	
	Resorts	>250 Rooms	76-250 Rooms	15-75 Rooms	Non-Transient Beverage	Total
Total revenues (000s)	$177,743	$205,900	$563,270	$536,901	$140,784	$1,644,598
Wages (000s)	$53,322	$61,770	$168,981	$16,070	$42,235	$493,378
Employment - FTEs	3,501	3,798	8,259	11,656	905	28,119

The total revenues, wages and employment figures have been modified by economic multipliers. The resulting effects show the indirect and induced income generated by revenues of the hotel sector. We have also shown the total employment impact in person-years of employment. These numbers can be seen in Exhibit VII-2. In addition, we have also estimated the tax impacts on the federal, provincial and municipal levels of hotel activities.

The above results do not represent a detailed estimated economic impact of the hotel industry. This analysis was prepared to put some general parameters on the industry to help put the industry into perspective.

EXHIBIT VII-2
Indirect and induced economic impacts of British Columbia hotel industry

	A	B	C	D	E	
Type of Hotel	Resorts	>250 Rooms	76-250 Rooms	15-75 Rooms	Non-Transient Beverage	Total
			- 000 -			
INDIRECT INCOME IMPACTS GENERATED:						
In-province	$202,627	$234,726	$642,071	$634,867	$160,494	$1,874,785
Out-of-province	95,981	111,186	304,139	300,727	76,023	888,055
Total	$298,608	$345,912	$946,210	$935,594	$236,517	$2,762,840
*EMPLOYMENT IMPACTS -- PERSON-YEARS OF EMPLOYMENT						
Direct and indirect	2,392	4,881	13,288	10,614	2,354	33,532
			- 000 --			
TAX IMPACTS						
Federal	$32,251	$37,360	$102,195	$101,049	$25,545	$298,400
Provincial	24,500	28,381	77,634	76,762	19,405	226,682
Municipal	6,699	7,760	21,227	20,989	5,306	61,982
Total	$63,450	$73,501	$201,056	$198,800	$50,256	$587,064

** Three part-time jobs were assumed to be equal to one person-year of employment.*

B. EMPLOYMENT IS SHOWING SMALL CHANGES

Employment levels are slowing increasing in British Columbia's hotels. Statistics Canada data shows employment levels in 1983 are at the same level as in 1988. However, levels dropped from 1983 to 1985 approximately 20% and then increased again by 1988. We have estimated the number of employees in our 780 hotels in 1988 to be 28,100.

Many hoteliers, however, feel that employment levels are dropping. This is due to the fact that in the beverage sector, due to decreasing sales, there has been a loss of employees. However, as total alcohol sales have not changed, this represents partially a transfer from the hotel beverage sector to other licensed beverage outlets such as neighbourhood pubs and restaurants. The overall level of employment in the beverage sector may have slightly declined.

In the future, increases in employment will be directly proportional to the increase in room supply as indicated by the construction of further facilities. The new hotels constructed will be more efficient and require less employees per room than older designs.

Continuation of the decline in beverage sales in licensed outlets will further create losses of bartenders and cocktail waitresses for hotels. This will not, however, represent a loss of employment in the total hospitality industry.

C. THE ECONOMIC IMPACT OF THE HOTEL INDUSTRY WILL INCREASE IN THE FUTURE

Increases in economic impact in the future will be fueled by the potential for major increases in the resort development in British Columbia and the continuation of more urban development. Regional and other centres could grow but it is unclear how these will develop.

Hotel employment will increase at the rate of growth of the new hotel supply. New hotels will be more efficient and will require fewer employees per revenue dollars. This effect, however, will be relatively small unlike the severe changes that have occurred in the natural resource sector.

In summary, the hotel industry will provide stable employment into the future for British Columbians. The potential exists for long-term growth in the size and revenue potential of the industry.

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VIII

THE FUTURE HOTEL INDUSTRY IN BRITISH COLUMBIA

The hotel industry is in transition. In the past, the industry has been heavily influenced by or dependent upon government policy. Government policy or initiatives have encouraged or discouraged the creation of supply and government regulations substantially affect the style and nature of hotel operations.

The environment is now changing. The future industry will be more market driven, and government regulations and policy will play a lesser role in the stopping and building of the industry. This chapter summarizes a number of trends and changes that will be more pronounced in the future. A current profile of successful British Columbia hotels is included in Appendix D.

A. SUCCESSFUL HOTELS IN THE FUTURE WILL ADDRESS SPECIFIC MARKETS

The successful hotel of the future will offer specialized facilities oriented to selected target markets. In the future, the following general types of hotels will be represented:

- Downtown chain hotels -- As long as the province's city centres stay healthy, there will always be a place in the market for the large downtown chain hotels targeted to commercial, convention and tourism business.
- Large resorts -- Three to four-season resorts such as Whistler will grow and develop to address increasing international and destination tourism and meeting business.
- Specialty resorts -- Specialized resorts for seasonal activities will exist for special market niches and will tend to cater to the upper end of the marketplace.
- Budget hotels -- New budget-style properties will address the low end of the marketplace.
- Bed and breakfast and pensions -- These will continue to develop to address a growing segment of the market.
- Suburban hotels -- Suburban full-service hotels will address community needs and suburban markets.
- All-suite -- New specialized products such as all-suite properties will address growing urban needs.

A portion of the current facilities will disappear from the marketplace including beverage-oriented properties, seasonal resort properties at the low end of the marketplace and full-service community hotels. There will remain a need for community focal point hotels. However, in most communities there is a need for only one hotel instead of the many that currently exist. In the future there will be fewer hotels in the 20-50-room size range that are too large to be in the bed and breakfast category and too small to be economic.

B. OWNERS AND MANAGERS WILL BE BETTER EDUCATED IN THE FUTURE

In the past, owners and managers often fell into the hotel industry rather than as a result of a career planning. Currently, there are more students committed to tourism as a career and more educational programs available to pursue in the hospitality sector. Over time this will lead to a greater depth of experience in the hospitality sector. This will greatly assist the industry in helping with the challenges in the sophisticated markets of the future.

C. NEWER HOTELS WILL BE MORE EFFICIENT

Technology and sophisticated design techniques are creating efficient hotels. Energy management systems are reducing utility costs. Front desk and back office systems are reducing the effort required to prepare proper accounting records. Modern telephone systems, electronic lock systems and other technology are making hotels more efficient. Modern design concepts coordinated with labour scheduling are reducing costs. New hotel designs will be created by a sophisticated team of experienced hotel designers, architects, engineers and technology designers. These sophisticated designs will come through hotel chains and large hotel companies rather than small entrepreneurs as in the past.

D. THE HOTEL INDUSTRY WILL HAVE A BETTER SELF-IMAGE

The hotel industry of the future will consider commitment to a career in hotels as important. Improved efficiencies and heavy use of technology will create demanding hotel positions and improve wage scales.

Service to people will obtain a higher position in society similar to Europe as the hotel industry matures. Certification programs and education credentials will give increasing importance as the British Columbia hotel industry increases its sophistication. Industry participants will be more committed to the industry as a career and the general self-esteem of the industry will be higher.

E. HOTELS WILL BE LESS RELIANT ON BEVERAGE SALES

The hotel of the future will likely have a combined restaurant and lounge area and may not have a pub. Beverage patrons in the lounge will likely be hotel guests or restaurant patrons rather than persons just coming to consume alcoholic beverages. In the bars and lounges of the future there will be a shift to alternative beverages, i.e., low alcohol and new alcohol beverages, etc., will be more frequently consumed as lifestyle and other social changes become more entrenched. Bars and lounges in the future will provide a balanced eating and drinking environment rather than a pure drinking environment.

F. HOTELS OF THE FUTURE WILL PROVIDE MORE AMENITIES AND HAVE A HOME-LIKE ATMOSPHERE

There will be increasing amenities in hotel rooms such as hair dryers, remote controls for TVs and bathroom toiletries. Market studies in the United States are showing that hotel guests prefer a home-like atmosphere and demand amenities that currently exist in the home environment. The current strength of the all-suite market is demonstrating the desire for a more home-like atmosphere.

G. ECONOMIC BALANCE MUST BE ACHIEVED FOR SUCCESS

Hotels obtain longer term financial success when the demand and supply factors are in balance and hotel values are related to the cash flow ability of the property. Many external factors can upset the economic and supply/demand balance. The original TIDSA program encouraged the construction of hotels in areas of weak demand. The receiverships in the early 1980s created hotels with unusually low capital structures. Foreign investment at the present time is overheating the values of hotels far above income values. One-industry towns when they fail eliminate sources of demand. All of these factors upset a healthy environment for hotels.

Future government policies should recognize the need for a healthy operating and investment climate and in general will assist demand generation rather than emphasizing supply.

H. THE GOVERNMENT'S ROLE WITH THE HOTEL INDUSTRY WILL BE INFLUENTIAL BUT NOT PARTICIPATORY

The greatest contribution the government can make to the hotel industry is to effectively manage the general economy for all areas in the province to ensure a healthy business and tourism demand. In addition, government can provide a key role by providing direct marketing support and organization of joint marketing efforts in regions.

Government can also assist by priming the pump of demand in creating tourism generators such as convention centres and other public attractions. Government, of course, has a key role to play in maintaining the quality of the physical environment of the province. The "Super Natural" quality of the province is a critical factor in attracting tourist, tour meeting and convention visitors to British Columbia.

Government can further assist by supporting industry training and education programs.

I. THERE WILL BE MORE JOINT MARKETING WITH BETTER ORGANIZATION

In the future, there will be stronger regional associations supported by the 2% tax that will organize all tourism products in the region to effectively market to outside destinations.

J. THE ACCOMMODATION INDUSTRY IN THE FUTURE WILL BE REPRESENTED BY ONE ASSOCIATION

The accommodation industry will be better served by one large association. This would allow better representation and liaison with government and society. Beverage hotels and neighbourhood pubs could be either a division of the larger association or form a separate association to represent their interests.

K. HOTEL PUBS AND NEIGHBOURHOOD PUBS WILL BECOME SIMILAR ENTITIES IN THE FUTURE

Pubs where the primary activity is to consume beverage alcohol and provide entertainment will be licensed and treated on an equal basis in the future. Common limits to the number of seat rules and reasons for construction will become the same in the future. Issuance of a pub licence should depend upon need factors, facility quality standards and other criteria as established by the Liquor Board with input from the industry.

The net effect of these changes will be to create a hotel industry based upon fulfilling the needs of the accommodation sector and a pub industry based upon fulfilling the needs of the consumer.

IX

SUMMARY OF RECOMMENDATIONS

In this chapter we present recommendation and suggestions for action to be taken by both the industry and government. Some of these suggestions can be easily implemented and others must be carefully studied before any initiatives can be taken. We present the following for consideration:

- ► Both provincial and regional marketing programs need to direct promotion to encourage residents to travel within British Columbia during the winter and shoulder seasons. Activities to be promoted include cross-country skiing, snowmobiling, winter fishing and other winter sports and cultural activities. Major studies have analyzed these segments and information is readily available to implement programs.

  These programs are required to improve off-season demand to improve the financial viability of the hotels particularly in the less populated areas of the province.

- ► The government of British Columbia needs an effective product development strategy to create tourism and commercial demand in the outer areas of the province.

  Government initiatives can improve hotel demand by support for tourism generators and meeting facilities.

- ► There is a need for the industry to organize professional development for owners and managers of hotels to keep up-to-date with sophisticated hotel management, marketing and development trends.

  A better educated industry will assist the change from a beverage dependent industry to a room-based industry.

- ► A government loan guarantee program similar to the Seed Capital program should be considered for the tourism industry to encourage renovations and upgrading of current products. Hoteliers will bear the same responsibilities as under a normal private loan for repayment and provision of security.

  A loan guarantee program is needed to stimulate a source of capital for smaller hotels which are unable at present to obtain funding. A guarantee program reduces barriers for the lending institutions, but at the same time should not distort normal lending practises because operators will still need to justify and repay their loans.

- The hotel industry should make efforts to improve relations with the banking community.

  The banking industry has not been interested in funding the hotel industry unless alternative security is available because of higher real and perceived risks. The hotel industry needs to communicate how the industry is becoming more market driven and viable

- Foreign investors should be encouraged to look at potential new resort developments to build some of the new products required in British Columbia as opposed to purchasing only the existing base.

  These investors will bring new ideas and capital for product development.

- The hotel industry of British Columbia should prepare briefs along with the hotel industry of Canada to be forwarded on to the federal government on the potential negative impacts of the national sales tax (goods and services tax).

  The impact of the national sales tax needs to be understood by both government and industry. At present, the tax is expected to substantially increase the tax burden on the service sector

- The facilities accompanying a hotel pub should be based on market needs. Pub licenses need to be evaluated on their own criteria.

  Currently the criteria for a pub license is based upon providing rooms, banquet space and restaurant seats. In a number of areas, excess other hotel facilities have been built where there is insufficient market for the facilities. The licensing requirements have led to a distortion in the construction of the accommodation supply in the province.

  The impact of removing these regulations would allow hotel operators to close or open facilities in unprofitable sections of their properties based on market demand. This allows hotels to match facilities to market needs and eliminates artificial supply created by regulatory policies.

- Consideration should be given to a consistent wholesale price on liquor by offering a 10% discount for all licensee purchases.

  This will eliminate a portion of the tax burden imposed by the 10% tax,thus providing a fairer taxation on liquor for all licensees.

- All conforming hotels should be eligible for LRS stores.

  This change will eliminate the unfairness in the current system and allow equity between the operators. LLCB should apply regular guidelines after consultation with the industry.

- Annual hearings need to be held on liquor policy between government and industry to encourage the development of consistent and effective liquor policies.

  This will improve the communication between industry and government and help eliminate problems with liquor policy.

- Consideration should be given to reducing the basic hotel tax from its present level of 8% to 6%.

  Reduction of this tax will eliminate the disparity between the basic hotel tax and the sales tax.

- The feasibility of applying the 2% marketing room tax on a province-wide basis should be considered. This additional tax on top of the basic 6% sales tax should be distributed to the appropriate industry-community based organizations. The current 2% tax in Vancouver, Victoria and Whistler would be left intact while other regions, groups of communities or potential destination centres would become the designated area for other parts of the province.

  This tax should only be used to assist the hospitality industry in marketing itself at the local and regional level. Tourism B.C. would remain the agent responsible for marketing the total province. Once a consensus can be built, valuable marketing (and in some cases development) dollars will be available for all regions of the province.

- The three accommodation associations should move toward into one association to increase their ability to represent the total accommodation industry. The beverage industry should be either dealt with as a sub-section of the accommodation association or should be separated into an association including hotels that are primarily in the business of dispensing beverage alcohol.

  A larger accommodation industry association should better represent the interests of the industry, government and society.

The future of this $1.6 billion industry in British Columbia looks promising. Cooperation will be required between the provincial government, industry representatives, regional tourism associations and all parties in the accommodation sector to meet the challenges of the future accommodation industry.

Appendix A

SAMPLE QUESTIONNAIRE

CONFIDENTIAL INDUSTRY STUDY QUESTIONNAIRE

A. GENERAL

1. Name of property: ______________________________

2. Location: ______________ Street ______________ City

3. Mailing address (if different from above)

______________ Street ______________ City

4. Name of owner: ______________ Length of time as owner: ______

5. Name of manager: ______________ Length of time as manager: ______

6. Person filling out questionnaire: ______________________________

Position -- if not one of above: ______________________________

7. Telephone: ______________ Fax #: ______________

B. ROOMS DATA

7. For your facility please indicate the history of room supply charges.

		Number of rooms	Year of construction/ deletion	Estimated cost of construction
	Original construction............	______	______	______
	Additions/deletions..............	______	______	______
Indicate which	Additions/deletions..............	______	______	______
	Additions/deletions..............	______	______	______
	Total current rooms.............	______	______	______

8. Total number of rooms by category:

Regular/standard..................	______
Suites................................	______
Cottages............................	______
Other (specify)	
______________	______
Total	______

Indicate percentage of rooms that are normally rented on a monthly rather than a daily basis.................................. ______%

9. Are you planning any proposed room additions and renovations?

	# rooms	Year to be performed	Estimated cost
Renovations	______	______	________
Additions	______	______	________

10. Which of the following room amenities and services do you provide? (Please check all that apply).

Telephone ☐
Continental breakfast ☐
Bellman/doormen ☐
800 line ☐
Fax machine ☐
24-hour front desk ☐
Television ☐
Cable or satellite hookup ☐
Air conditioning ☐
Room service ☐
Minibar ☐
Other room amenities (please describe) ☐

____

____

11. Which of the following other facilities/amenities do you provide? (Please check all that apply.)

Winter sports facilities ☐
Fitness facilities ☐
Sauna, hot tub or whirlpool ☐
Day care, children supervision ☐
Facilities for the handicapped ☐
Other recreational facilities ______________________
Indoor pool ☐
Outdoor pool ☐
Marina facilities ☐
Racquet sports facilities ☐
Meeting support facilities ☐

12. Have your room services or facility amenities offered changed since 1985?

Increased ☐
Decreased ☐
No change ☐

If yes, please describe: ______________________________________

____

____

____

13. Indicate average occupancies and average rates for your facility in recent years and expected in 1989.

	1984	1985	1986	1987	1988	(Expected) 1989
Average occupancy (%)	______	______	______	______	______	______
Average daily rate ($)	______	______	______	______	______	______

14. Estimate monthly occupancies for a recent year.

Jan.	________%	May	________%	Sept.	________%
Feb.	________%	June	________%	Oct.	________%
March	________%	July	________%	Nov.	________%
April	________%	Aug.	________%	Dec.	________%

15. Average occupancy by day of week in 1988 was

Weekdays (Monday-Thursday)............................ ________%

Weekend (Friday, Saturday, Sunday).......................... ________%

C. FOOD AND BEVERAGE DATA

16. How many **restaurant** seats do you provide by category?

Coffee shop............	______
General purpose rest...	______
Fine dining/specialty...	______
Other (specify)	
______________	______
Total number of seats	______

17. How many **beverage** seats do you provide by category?

Lounge.................	______
Pub......................	______
Cabaret.................	______
Other (specify)	
______________	______
Total	______

18. Indicate the type and number of liquor licences and number of seats you have.

Type	Licence # you have	Actual Number of seats
A	________	________
B	________	________
C	________	________
F	________	________
G	________	________
H	________	________

19. Patronage at your facility restaurant(s) is:

______ % from in-house guests ______ % from outside

20. Patronage at your facility: Lounge(s): Pub:

Lounge(s):	Pub:
______ % from in-house guests	______ % from in-house guests
______ % from outside	______ % from outside

21. Draught Beer Prices -- indicate what the price of standard glass of draught was at:

	March 1987	April 1987	June 1987	Feb. 1989
9 oz. glass............	$______	$______	$______	$______
16 oz. pint............	$______	$______	$______	$______

22. Are you proposing any additions or renovations to your food and beverage facilities?

Yes.......................... ☐
No........................... ☐

If yes, please describe below. ________________________________

(Indicate which)	Type of facility	# of seats	Year to be performed	Expected cost
Addition/renovation	______________	_____	______	______
Addition/renovation	______________	_____	______	______
Addition/renovation	______________	_____	______	______

D. MEETINGS AND BANQUETS

23. How many meeting rooms do you have?.. ______

24. What is the total square footage of meeting space offered?.................... ______

25. Estimate for 1988 how many meetings/banquets your property hosted where the majority of your guests:

Meetings/banquets between:		Used hotel rooms	Did not use hotel rooms
	10 - 49 people	______	______
	50 - 99 people	______	______
	100 - 299 people	______	______
	> 300 people	______	______
	Total	______	______

26. Are any meetings co-hosted with other hotels?

Yes.......................... ☐
No........................... ☐

If yes, how many would that be?.... ______

27. What is the average number of people served during one of your meeting/banquet events?.. ______

E. MARKET DATA (Please answer for the 1988 year)

28. In 1988, estimate your sources of room demand:

Business/commercial.................. __________ %
Convention/conference delegates.... __________ %
Meeting................................ __________ %
Government............................ __________ %
Packaged or bus tours................. __________ %
Individual incentive (award) traveller __________ %
General tourists........................ __________ %
Sporting & special local events...... __________ %
Monthly rentals......................... __________ %
Other (Specify type)

____________________ __________ %
Total 100%

29. Estimate major market areas of your customers who used your accommodation in 1988:

British Columbia..... __________ %
Alberta................. __________ %
Ontario................. __________ %
Other Canada......... __________ %
Western U.S.A....... __________ %
Other U.S.A.......... __________ %
Far East................ __________ %
European.............. __________ %
Other (specify)

____________________ __________ %
Total 100%

30. Estimate percentage of your 1988 room customers that arrived by:

Air...................... __________ %
Vehicle................ __________ %
Other (specify)

____________________ __________ %
Total 100%

31. What percentage of your rooms were rented to?

One person........... __________ %
Two people........... __________ %
Three or more........ __________ %
Total 100%

32. What percentage of your customers were?

First time customers
(never used property before). __________ %

Repeat customers (used
property 2-3 times this year). __________ %

Frequent customers
(Four or more times
during the year)................ __________ %
Total 100%

F. MARKETING ACTIVITIES

33. How much did you spend (including wages) on advertising and promotion in 1988?.. $__________

34. How much of the salaries and wages at your property are spent for staff involved directly in advertising and promotion?............................. $__________

35. Indicate which of these marketing activities do you engage in: (check as many as apply)

Brochures.................. ☐
Posters...................... ☐
Magazine ads............. ☐
Radio ads.................. ☐
Television ads............ ☐
Newspaper ads........... ☐
Travel agents............. ☐
Promotional trips......... ☐

Travel/trade shows................. ☐
Convention & visitors bureau/ info. centre........................... ☐
Accommodation guide............ ☐
Travel radio shows................ ☐
Facility planner..................... ☐
Word of mouth..................... ☐
Direct mail........................... ☐

Other (specify)____

36. Which do you consider produces the best results? Indicate one or more.

____

____

37. Where did you direct your advertising in 1988?

Commercial....................	________%
Convention....................	________%
Meeting..........................	________%
Government....................	________%
Packaged tours................	________%
Individual incentive...........	________%
General tourist................	________%
Sporting & special events....	________%
Other (specify) ______________	________%
Total	100%

Local (100 km radius)........	________%
Other B.C......................	________%
Alberta..........................	________%
Ontario..........................	________%
Other Canada.................	________%
U.S. West Coast.............	________%
U.S. Other.....................	________%
European.......................	________%
Far East........................	________%
Other (specify) ______________	________%
Total	100%

38. Do you participate in any collective marketing programs? Yes.......................... ☐ No.............................. ☐

If yes, please indicate with whom (check all that apply)

Similar operations in market area............... ☐
Different operations in market area............. ☐
Regional tourism associations.................. ☐
Transportation carriers............................ ☐
Other (please specify)............................ ☐
____

Is there a marketing area you would like help with? Yes.......................... ☐ No.............................. ☐

If yes, please describe. ____

G. MANAGEMENT AND STAFFING

39. What level of training and experience does your **management** team have? (Check the one that applies to the majority of your management personnel.)

	General Mgr.	Dep't Head Rooms	Dep't Head F&B
a) Industry Experience			
Five or more years experience in current management position..	☐	☐	☐
Two to five years experience in current management position....	☐	☐	☐
Some experience in position..	☐	☐	☐
Little or no experience in position..................................	☐	☐	☐
b) Formal education			
University degree...	☐	☐	☐
Hospitality diploma..	☐	☐	☐
Attended industry seminars (i.e., BCYHA seminar)..............	☐	☐	☐
No related formal training...	☐	☐	☐

40. Has your **staff** attended any training seminars provided by the industry or government?

Yes.......................... ☐
No............................ ☐

Please describe your feelings about the quality and availability of current training programs for staff.

41. Indicate the positions held by your staff and management in part-time (1st line) and full-time (3rd line) positions. On the second line estimate the total full-time equivalent positions of part-time employees. That is convert part-time positions to equivalent full-time jobs and add to the full-time positions to get total full-time equivalent positions (4th line). For example, if three part-time employees are performing one person's full-time job in the food area, then these three positions equate to one full-time position. This number is then added to number of full-time jobs to get full-time equivalent positions.

	Food	Beverage	Rooms	Other	Total
1. Estimate part-time positions					
2. Convert to equivalent full-time position					
3. Add regular full-time positions					
4. Equals total full-time equivalent positions					

Total Management & Staff............ ________

42. Total wages and benefits (salary and hourly) including employer contribution in 1988 was:

	Food	Beverage	Rooms	Other	Total
Salaries & benefits	$________	________	________	________	$________

H. FINANCIAL INFORMATION

43. Since 1974, this property: (check more than one if appropriate)

			What year(s)
a)	Has never been in financial difficulty.............................	☐	______
b)	Has been unable to operate without outside support at some point...	☐	______
c)	Has always needed outside support...............................	☐	______
d)	Has been in receivership at some point...........................	☐	______
e)	Is currently in receivership..	☐	______
f)	Do not know..	☐	______

44. Do you anticipate any financial difficulties for this property in the next two years?

Yes..................... ☐
No...................... ☐

45. The year end for your property is (indicate month and day) ____________________

46. From your 1988 balance sheet, or your latest year end closest to December 31, 1988 (internal statements are adequate) please indicate:

Short term debt and payables (operating debt and amounts due within one year)................... $________
Long term debt............ $________

Total....................... $________

Shareholders loan......... $________
Share capital............... $________
Contributed surplus...... $________
Retained earnings......... $________

Total....................... $________

47. The average interest rate on your property's long term debt was ....$____________

48. Indicate the following taxes paid/collected

- Income................................. $__________
- Property............................... $__________
- Business licences/fees................ $__________
- Provincial Liquor Sales Tax......... $__________
- Payroll taxes (employer portion).... $__________
- Room taxes........................... $__________

49. What was your:

Total food sales $________
Total beverage sales $________

50. In 1988, my year-end financial statement read: (please fill in only where appropriate)

	1988
Available rooms	
Occupancy %	
Average room rate	
Operating revenues: (excluding provincial sales taxes)	
Rooms	
Restaurant	
Lounge	
Pub	
Cabaret	
LRS	
Telephone	
Other income	
(1) TOTAL	
Cost of sales and departmental expense:	
Rooms	
Restaurant	
Lounge	
Pub	
Cabaret	
LRS	
Telephone	
Other (Specify)____________________	
(2) TOTAL	
Operating departmental income (1) minus (2)	
Undistributed operating expenses	
Administration and general	
Marketing	
Energy	
Repairs and maintenance	
Management fees	
Franchise fee(s)	
(3) TOTAL	
Income before fixed charges (2) minus (3)	
Fixed charges	
Insurance	
Property taxes	
Land lease	
(4) TOTAL	
Income before interest, depreciation and income taxes (3) minus (4)	
Less: Interest	
Depreciation	
Income taxes	
(5) TOTAL	
Net income (4) minus (5)	

I. INDUSTRY ISSUES

51. What private sector initiatives in priority order do you feel would best promote a healthy B.C. hotel industry?

a) ______________________________

____

____

b) ______________________________

____

____

c) ______________________________

____

____

52. What public sector initiatives in priority order do you feel would best promote a healthy B.C. hotel industry?

a) ______________________________

____

____

b) ______________________________

____

____

c) ______________________________

____

____

53. We are interested in your opinion on several hotel industry problems and issues. Please indicate the degree of importance of each issue for your hotel property. (Circle the number that best matches your opinion; 1 is of no importance, 4 is very important):

	Of no importance	A minor issue	A significant issue	A very important issue	*Priority for action
Availability of qualified employees	1	2	3	4	____
Lack of adequate/available training programs	1	2	3	4	____
Need to automate management information systems.	1	2	3	4	____
Need for significant renovations	1	2	3	4	____
Lack of adequate capital financing	1	2	3	4	____
High interest rates	1	2	3	4	____
Price of gasoline	1	2	3	4	____
8% room tax	1	2	3	4	____
2% additional room tax	1	2	3	4	____
Total tax load (municipal, provincial, federal)	1	2	3	4	____
National Sales Tax (Valued Added Tax)	1	2	3	4	____
11:00 p.m. off-sales restriction	1	2	3	4	____
10% draught beer tax	1	2	3	4	____
Competition from neighbourhood pubs	1	2	3	4	____
Public special occasion licences (SOL)	1	2	3	4	____
Lack of knowledge how to market your product	1	2	3	4	____
Lack of cooperative marketing efforts with industry and government	1	2	3	4	____
Competition from other hotels	1	2	3	4	____
Other (please specify) ____________	1	2	3	4	____

*For the significant and very important issues, please rank them in order of priority for action.

Thank you for your time in completing this questionnaire. Please send completed questionnaire to:

Stevenson Kellogg Ernst & Whinney
Management Consultants
1600 Thorne Ernst & Whinney Tower
1177 West Hastings Street
Vancouver, B.C.
V6E 2K3

Attention: Anne Kaario

Appendix B

DEFINITION OF HOTELS

Appendix B

DEFINITION OF HOTELS

Hotels were selected from the accommodation directory and individual properties that met the definitions for full-service hotels, hotels, motor hotels, resorts, lodges and guest ranches. A criteria of greater than 15 rooms was applied. This eliminated properties in resort, lodge and guest ranch categories that normally would not be thought of as hotels.

The following definitions were selected from the Accommodation Directory:

- **Hotel, Full Service**

  Inside access; private rooms with private baths; daily maid service; several full food and licensed beverage facilities on the premises; guest parking on the premises or property; numerous guest services and facilities on the premises; elevator service.

- **Hotel**

  Inside access; private rooms with private and/or guest public bathrooms; daily maid service; may provide some full or partial kitchen facilities; may provide some food and licensed beverage facilities on the premises; may provide limited guest parking on the premises or property; may provide some guest services and facilities; may provide elevator service.

- **Motor Hotel**

  Inside or outside access; private rooms with private baths; daily maid service; full food and licensed beverage facilities on the premises; guest parking on the premises; may provide full or partial kitchen facilities; may provide elevator service; may provide some guest services and facilities on the premises; may provide some recreational facilities on the premises.

- **Resort**

  Inside or outside access; a variety of accommodation with 30 or more units; private rooms with private baths; a range of food and beverage facilities; several recreational amenities on the property; guest parking; may provide daily maid service; may provide full or partial kitchen facilities; may provide a combination of meals on an American or Modified American Plan basis; may provide elevator service; a destination resort catering to guest staying several days or more.

- **Lodge**

  Inside access; private rooms, with private and/or guest public bathrooms; usually includes a full breakfast in the room rate; may provide daily maid service; may provide full or partial kitchen facilities; may provide a combination of meals on an American or Modified American Plan basis in an informal dining room on the premises; may provide licensed beverage facilities on the premises; in addition, may provide cottage or cabin-type accommodation on the property that is associated with the lodge; guest parking; may be located in a wilderness area; may be associated with a destination resort area.

- **Guest Ranch**

  Must provide horses for horseback riding on the property; usually a fully operational guest ranch; inside or outside access; lodge, cottage or cabin-type accommodation usually on an informal basis; may provide daily maid service; may provide a combination of meals on an American or Modified American Plan basis in an informal dining room on the premises; may provide licensed beverage facilities on the premises; may provide some recreational facilities on the premises or property; guest parking; may be located in a wilderness area; may be associated with a destination resort area.

Hotels were classified into five categories -- A, B, C, D and E -- as defined below.

- **A** -- These represent full facility resort properties where the majority of guests make this a destination for their vacation.
- **B** -- These are all hotels greater than 250 rooms other than large resort hotels.
- **C** -- These are all hotels greater than 75 rooms but less than 251 rooms, but not including resorts.
- **D** -- These are all hotels greater than 15 rooms but less than 76 rooms, but not including resorts.
- **E** -- These are all non-conforming hotels that either do not have rooms or do not offer transient room accommodation. They generally are rooming house type accommodation deriving the majority of their income from beverage sales.

Appendix C

RESULTS OF SURVEY OF HOTELIERS' OPINIONS

Appendix C

RESULTS OF SURVEY OF HOTELIERS' OPINIONS

	Percentage of responses				
	Of no importance	A minor issue	A significant issue	A very important issue	Priority of very important issues
Availability of qualified employees	5	25	22	48	12
Lack of adequate/available training programs	5	42	32	22	18
Need to automate management information systems	14	32	43	11	19
Need for significant renovations	9	26	28	36	10
Lack of adequate capital financing	28	25	17	30	11
High interest rates	3	13	20	64	4
Price of gasoline	29	17	33	21	13
8% room tax	8	17	28	48	6
2% additional room tax	8	17	12	63	5
Total tax load (municipal, provincial, federal)	1	4	10	85	1
National Sales Tax (Value Added Tax)	1	7	12	80	2
11:00 p.m. off-sales restriction	24	17	13	46	7
10% draught beer tax	11	6	11	71	3
Competition from neighbourhood pubs	19	15	22	43	8
Public special occasion licences (SOL)	18	12	31	39	9
Lack of knowledge how to market your product	25	38	25	12	17
Lack of cooperative marketing efforts with industry and government	8	29	36	26	14
Competition from other hotels	13	41	30	16	15
Other (please specify)	0	10	10	81	16

Appendix D

PROFILE OF SUCCESSFUL HOTELS

Appendix D

PROFILE OF SUCCESSFUL HOTELS

There are many factors that lead to success and just as many measures of successful performance. In the case of the British Columbia hotel industry, very few properties could be considered successful by all measures. In addition, the reason for success at any one hotel property is not always transferable to another property and thus factors of success for one property may not be a factor for another.

For the purposes of this analysis, a number of British Columbian hotels considered successful for various reasons are compared against the average by category. This provides a picture of some key factors for success in the British Columbia hotel industry.

A. RESORT PROPERTIES

Successful resorts ("A" properties) in British Columbia have a number of similar characteristics.

1. Financial success

a) They are larger (over 100 rooms) and operate over a three-season horizon or for an extended two-season horizon. This means that compared to the average, successful resorts are open longer and have higher annual average occupancies (over 70%). However, rates tend to be similar to the average.

b) A significant portion (even greater than the average) of income at successful resorts comes from sources other than rooms, food and beverage. These properties often charge directly for services such as tennis, golf or fishing, or they take a percentage from those who do supply these services to hotel clients. Direct contribution from these areas may be as high or higher than from rooms.

c) Food and beverage profit is minimal while service and quality standards are very high. These resorts know that a well-rounded experience for a resort customer must include the best food and beverage available.

d) Operating costs as a percentage of revenues are not dramatically better than the average for resorts in the province but, because revenues are usually higher, lower costs are magnified to create much higher income before interest, depreciation and tax (IBID&T) than average. The average British Columbia resort had a 21% IBID&T while the successful properties had 25-30% IBID&T on $5-10 million in gross revenues.

2. Market success

a) Resort hotels that are successful have very focussed markets that emphasize the strength of their area and resort. This usually involves one key selling point and market focus and then additional points or sub-markets to a lesser degree. For example, a single season fishing resort may focus on upper-end corporate fishing retreats as a primary market focus. Other servies and area benefits such as whale watching and hiking would be secondary services offered to other types of clientele.

b) For the smaller resort properties that are successful, the most common characteristic is their upper-end market focus. Successful small resort properties (under 40 rooms) are often only open during a short peak season, but very high rates and occupancies during the open period enable these properties to be successful.

B. "B" HOTELS

Successful large urban properties with more than 250 rooms are not always those that have the premier image in the community, but successful "B" hotels do have similar traits.

1. Financial success

a) Downtown properties that present themselves as downtown top-end or resort-oriented properties achieve the highest rates and often the highest occupancies.

b) Operational performance in terms of operating costs is most influenced by levels of staffing and service. The higher the number of staff per room, the tendency to higher operating costs and lower net incomes even with higher rates per room. Operating costs for successful properties were 2-6% less than the average.

c) Successful "B" hotels had undistributed costs similar to the average, but these costs vary slightly with the age of the property and locational differences.

d) While large hotels averaged 17.9% IBID&T, successful "B" hotels netted between 20% and 26% on total revenues.

Among these larger properties, success could be measured in various ways: high occupancies, high rates, low costs of operation (staffing), or low undistributed costs. Any one of these or a combination of all could result in an IBID&T performance 5-10% higher than the average. No single factor was consistent throughout the successful "B" hotels.

2. Market Success

As indicated, the most successful "B" hotels in terms of occupancy are those large downtown hotels that are able to evoke the image of a resort hotel in an urban environment. This focus enables these hotels to capture high volumes of traffic even during off periods, particularly weekends in mid-winter, when most hotels have difficulty filling rooms. These hotels market well to the meeting, corporate and high-season pleasure traveller as well, but are able to use their strong points to sell slower periods and thus be market successful. On a province-side basis, it is likely that "B" hotels are perceived as providing better service overall. This may be a result of the chain affiliation and advertising for many of these hotels.

C. "C" HOTELS

1. Financial success

The most successful 75-250-room properties are city center, small hotels with a high-end business and pleasure focus. Successful "C" hotels differ mostly from the average in the following ways:

a) They have a clear market focus in selling rooms, usually to high-end corporate or pleasure travellers. This is reflected in very low beverage sales relative to total sales. Food sales can be high in these hotels since they often contain premier restaurants, however, net income from food and beverage is small overall.

b) Total departmental operating costs is much less for successful "C" hotels because room costs are offset by high room revenues. Undistributed costs are higher in real dollar amounts than the average, but much lower on a ratio to total costs.

c) In terms of IBID&T, successful "C" hotels have 5-10% greater return as a portion of total revenues compared to the average.

Many "C" hotels are the focal point of small rural communities outside the Lower Mainland. Where these hotels are successful (that is performing above the average of their group) their profile looks very similar to the average, but with slightly better performance in most areas (i.e. slightly higher rates, occupancies and food and beverage sales and slightly lower costs).

2. Market success

Unlike their larger counterparts who are good at marketing to multiple markets, market successful "C" hotels primarily focus on one market, but very well. Because these properties are smaller, they can be filled with just one market. This does not mean other markets are excluded at successful hotels, just not emphasized. Often a second market is also addressed, but this market must be compatible with the hotel's primary focus. An example is a 200-room hotel with a strong focus on the small meetings market. With small meetings as its primary focus, it is very compatible to look to the corporate/commercial market as a secondary source demand.

D. "D" HOTEL PROPERTIES

1. Financial success

Like successful "C" hotels, very successful "D" hotels (15-75 rooms) are also keenly market focussed, but primarily on upper-end pleasure travellers. They are small (less than 40 rooms), have little beverage sales and a small restaurant. The lack of extensive food and beverage facilities results in very high returns for properties of this type.

Most "D" hotels, however, are beverage as well as rooms oriented. Within the group that sells beverage, only a few have a much greater than average IBID&T. Among those that do, the most common characteristics were:

a) Occupancy at the properties rooms was good relative to the average, i.e. greater than 65%. Rates were also higher than the average in most cases but not always. Overall, there was a tendency for rooms, food and beverage revenues to be similar, i.e. beverage did not overshadow all other revenues. However, where these types of properties had LRS's, sales profitability was significantly enhanced.

b) Operating costs tended to be less than the group average in most areas, but this was offset by much higher administrative costs. This could indicate that increased supervision and monitoring of costs has its benefits in "D" hotels.

c) IBID&T was the highest in those properties that achieved a balance between sales of food, liquor and rooms such that a significant contribution from each area reached the bottom line.

2. Market success

From a market penetration standpoint, the most successful "D" properties are those that are able to capture a good portion of a community's room demand, food and beverage needs and pub or lounge demand. Market successful "D" hotels that are located outside a downtown core are usually community focal point hotels. Their market success needs to be measured in total volume of business captured in all areas. Their greatest reason for success lies in their ability to address a community's needs and to identify itself as the centrepiece hotel. Managers at these hotels are community oriented and involved in personal selling at all levels.

E. POSITIONING FOR THE FUTURE

A common thread among all successful hotels in British Columbia is their ability to respond to the marketplace quickly, or even anticipate changes prior to their occurrence. For example, some successful hotels are already developing child-care programs for children of guests and staff. Other new services or physical amenities necessary to capture new or sustain existing markets are evaluated on an ongoing basis and implemented where they are appropriate.

Not all these market responses require major capital outlay or significant risk. They require only that operators listen to their guests' needs and respond where appropriate. This attitude is taken from owner/operator and transferred to staff in successful hotels through adequate training and education. In future, successful British Columbia hotels will be run by owner/operators who believe in the service and product they provide, transfer this belief to their staff and listen to the needs of their customers.

Appendix E

BIBLIOGRAPHY

Appendix E

BIBLIOGRAPHY

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